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ECONOMIC AND SOCIAL HISTORY OF THE WORLD WAR

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GENERAL EDITOR

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English Version

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FINANCIAL POLICY OF CZECHO-SLOVAKIA DURING THE FIRST YEAR OF ITS HISTORY

BY

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EDITOR'S PREFACE

In the autumn of 1914 when the scientific study of the effects of war upon modern life passed suddenly from theory to history, the Division of Economics and History of the Carnegie Endowment for International Peace proposed to adjust the programme of its researches to the new and altered problems which the War presented. The existing programme, which had been prepared as the result of a conference of economists held at Berne in 1911, and which dealt with the facts then at hand, had just begun to show the quality of its contributions; but for many reasons it could no longer be followed out. A plan was therefore drawn up at the request of the Director of the Division, in which it was proposed by means of an historical survey, to attempt to measure the economic cost of the War and the displacement which it was causing in the processes of civilization. Such an 'Economic and Social History of the World War', it was felt, if undertaken by men of judicial temper and adequate training, might ultimately, by reason of its scientific obligations to truth, furnish data for the forming of sound public opinion, and thus contribute fundamentally toward the aims of an institution dedicated to the cause of international peace.

The need for such an analysis, conceived and executed in the spirit of historical research, was increasingly obvious as the War developed, releasing complex forces of national life not only for the vast processes of destruction but also for the stimulation of new capacities for production. This new economic activity, which under normal conditions of peace might have been a gain to society, and the surprising capacity exhibited by the belligerent nations for enduring long and increasing loss—often while presenting the outward semblance of new prosperity—made necessary a reconsideration of the whole field of war economics. A double obligation was therefore placed upon the Division of Economics and History. It was obliged to concentrate its work upon the

problem thus presented, and to study it as a whole; in other words, to apply to it the tests and disciplines of history. Just as the War itself was a single event, though penetrating by seemingly unconnected ways to the remotest parts of the world, so the analysis of it must be developed according to a plan at once all embracing and yet adjustable to the practical limits of the available data.

During the actual progress of the War, however, the execution of this plan for a scientific and objective study of war economics proved impossible in any large and authoritative way. Incidental studies and surveys of portions of the field could be made and were made under the direction of the Division, but it was impossible to undertake a general history for obvious reasons. In the first place, an authoritative statement of the resources of belligerents bore directly on the conduct of armies in the field. The result was to remove as far as possible from scrutiny those data of the economic life of the countries at war which would ordinarily, in time of peace, be readily available for investigation. In addition to this difficulty of consulting documents, collaborators competent to deal with them were for the most part called into national service in the belligerent countries and so were unavailable for research. The plan for a war history was therefore postponed until conditions should arise which would make possible not only access to essential documents but also the co-operation of economists, historians, and men of affairs in the nations chiefly concerned, whose joint work would not be misunderstood either in purpose or in content.

Upon the termination of the War the Endowment once more took up the original plan, and it was found with but slight modification to be applicable to the situation. Work was begun in the summer and autumn of 1919. In the first place a final conference of the Advisory Board of Economists of the Division of Economics and History was held in Paris, which limited itself to planning a series of short preliminary surveys of special fields. Since, however, the purely preliminary character of such studies was further emphasized by the fact that they were

directed more especially towards those problems which were then fronting Europe as questions of urgency, it was considered best not to treat them as part of the general survey but rather as of contemporary value in the period of war settlement. It was clear that not only could no general programme be laid down *a priori* by this conference as a whole, but that a new and more highly specialized research organization than that already existing would be needed to undertake the Economic and Social History of the War, one based more upon national grounds in the first instance and less upon purely international co-operation. Until the facts of national history could be ascertained, it would be impossible to proceed with comparative analysis; and the different national histories were themselves of almost baffling intricacy and variety. Consequently the former European Committee of Research was dissolved, and in its place it was decided to erect an Editorial Board in each of the larger countries and to nominate special editors in the smaller ones, who should concentrate, for the present at least, upon their own economic and social war history.

The nomination of these boards by the General Editor was the first step taken in every country where the work has begun. And if any justification was needed for the plan of the Endowment, it at once may be found in the lists of those, distinguished in scholarship or in public affairs, who have accepted the responsibility of editorship. This responsibility is by no means light, involving, as it does, the adaptation of the general editorial plan to the varying demands of national circumstances or methods of work; and the measure of success attained is due to the generous and earnest co-operation of those in charge in each country.

Once the editorial organization was established there could be little doubt as to the first step which should be taken in each instance toward the actual preparation of the history. Without documents there can be no history. The essential records of the War, local as well as central, have therefore to be preserved and to be made available for research in so far as is compatible with public interest. But this archival task is a very great one, belonging of right to the governments and other owners of historical sources

and not to the historian or economist who proposes to use them. It is an obligation of ownership ; for all such documents are public trust. The collaborators on this section of the war history, therefore, working within their own field as researchers, could only survey the situation as they found it and report their findings in the form of guides or manuals ; and perhaps, by stimulating a comparison of methods, help to further the adoption of those found to be most practical. In every country, therefore, this was the point of departure for actual work ; although special monographs have not been written in every instance.

This first stage of the work upon the war history, dealing with little more than the externals of archives, seemed for a while to exhaust the possibilities of research. And had the plan of the history been limited to research based upon official documents, little more could have been done, for once documents have been labelled ' secret ' few government officials can be found with sufficient courage or initiative to break open the seal. Thus vast masses of source material essential for the historian were effectively placed beyond his reach, although much of it was quite harmless from any point of view. While war conditions thus continued to hamper research, and were likely to do so for many years to come, some alternative had to be found.

Fortunately such an alternative was at hand in the narrative, amply supported by documentary evidence, of those who had played some part in the conduct of affairs during the war, or who, as close observers in privileged positions, were able to record from first or at least second-hand knowledge the economic history of different phases of the great war, and of its effect upon society. Thus a series of monographs was planned consisting for the most part of unofficial yet authoritative statements, descriptive or historical, which may best be described as about half-way between memoirs and blue-books. These monographs make up the main body of the work assigned so far. They are not limited to contemporary, war-time studies ; for the economic history of the war must deal with a longer period than that of the actual fighting. It must cover the years of ' deflation ' as well, at least sufficiently

to secure some fairer measure of the economic displacement than is possible in purely contemporary judgments.

With this phase of the work, the editorial problems assumed a new aspect. The series of monographs had to be planned primarily with regard to the availability of contributors, rather than of source material as in the case of most histories; for the contributors themselves controlled the sources. This in turn involved a new attitude towards those two ideals which historians have sought to emphasize, consistency and objectivity. In order to bring out the chief contribution of each writer it was impossible to keep within narrowly logical outlines; facts would have to be repeated in different settings and seen from different angles, and sections included which do not lie within the strict limits of history; and absolute objectivity could not be obtained in every part. Under the stress of controversy or apology, partial views would here and there find their expression. But these views are in some instances an intrinsic part of the history itself, contemporary measurements of facts as significant as the facts with which they deal. Moreover, the work as a whole is planned to furnish its own corrective; and where it does not, others will.

In addition to this monographic treatment of source material, a number of studies by specialists is already in preparation, dealing with technical or limited subjects, historical or statistical. These monographs also partake to some extent of the nature of first-hand material, registering as they do the data of history close enough to the source to permit verification in ways impossible later. But they also belong to that constructive process by which history passes from analysis to synthesis. The process is a long and difficult one, however, and work upon it has only just begun. To quote an apt characterization, in the first stages of a history like this one is only 'picking cotton'. The tangled threads of events have still to be woven into the pattern of history; and for this creative and constructive work different plans and organizations may be needed.

In a work which is the product of so complex and varied co-operation as this, it is impossible to indicate in any but

a most general way the apportionment of responsibility of editors and authors for the contents of the different monographs. For the plan of the History as a whole and its effective execution the General Editor is responsible; but the arrangement of the detailed programmes of study has been largely the work of the different Editorial Boards and divisional Editors, who have also read the manuscript prepared under their direction. The acceptance of a monograph in this series, however, does not commit the editors to the opinions or conclusions of the authors. Like other editors, they are asked to vouch for the scientific merit, the appropriateness and usefulness of the volumes admitted to the series; but the authors are naturally free to make their individual contributions in their own way. In like manner the publication of the monographs does not commit the Endowment to agreement with any specific conclusions which may be expressed therein. The responsibility of the Endowment is to History itself—an obligation not to avoid but to secure and preserve variant narratives and points of view, in so far as they are essential for the understanding of the War as a whole.

J. T. S.

PREFACE

The present book was written in December 1921, at a time when we had, in consequence of the progress achieved, already overcome the influences of Russian Bolshevism and had freed ourselves, at least in the most important departments, from State control. I have left unchanged the original text (apart from some insignificant alterations), only adding, in the form of annotations, an account of the further evolution, as the period up to the end of 1921 circumscribes the first stage of our financial and economic policy, characterized by a fight for principles and fundamental ideas. In the course of this fight many catchwords, lacking vitality, have disappeared; the faith in the omnipotence of the State, as engendered and fostered by the war and by the doctrines preaching class dictatorship, is on the wane, while respect for individual activity, self-help, generous emulation, and personal efficiency is on the increase. The unrest in the minds of the population is subsiding, the plans for the future grow simpler and more lucid with the disappearance of the demagogy with which they had been fraught before. A few fortresses, though half demolished, may yet continue flying the old flags; but they, too, shall crumble to pieces while free competition stands its test.

ALOIS RAŠÍN.

Prague, *November* 1922.

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INTRODUCTION

The independence of the Czechoslovak State was proclaimed by the Národní Výbor (National Committee) on the 28th of October 1918, subsequent to the capitulation of the Austro-Hungarian army. At the head of the National Committee stood the representatives of the Czech political parties, Dr. Franz Soukup, George Stříbrný, Anton Švehla, and the author of this book. Dr. Vavro Srobár joined the committee to represent the Slovaks. The exercise of sovereignty by this committee constituted the first act of government by the new State.

The boundaries of Czechoslovakia were defined as including the territory of the Kingdom of Bohemia (Bohemia, Moravia and Silesia), which had hitherto formed a part of Austria; and the territory of Slovakia, namely those districts of the Kingdom of Hungary inhabited by the Slovaks, a branch of the Czechoslovak nation, which stretch from the Danube to the Tatra and the Carpathians.

Thus arose the Czechoslovak State, which in December adopted the Republican form of government and elected Thomas Garrigue Masaryk as its President. The 28th of October was declared to be Independence Day.

From an international point of view, however, the Czechoslovak State did not come into existence until later. Its frontiers, its international position and obligations, the recognition of the collapse of the Austro-Hungarian Empire—these matters were only determined by the Peace Treaties of Versailles, Saint Germain, and Trianon.

The Peace of Versailles was ratified by the Signatory Powers on the 10th of January 1920 and obtained international validity on that day; the Peace of Saint Germain, on the 16th of July 1920; and the Peace of Trianon, on the 26th of July 1921. In undertaking to write this book, I cannot regard my task as accomplished by presenting only a picture of the

time from the 28th of October 1918 to the 28th of October 1919, but must consider the period up to the ratification of the Peace of Saint Germain as being an essential preliminary stage.

The Peace Treaties determined the territory of the Czechoslovak State otherwise than did the Declaration of Independence of the 28th of October 1918. The Treaty of Versailles assigned to us the Prussian locality of Hultschine, inhabited by Czechs, who had preserved the Czech nationality in spite of the lapse of 150 years since their violent severance from the Kingdom of Bohemia. By the Treaty of Saint Germain districts in the neighbourhood of Cmunt within the former region of Vitorázsko (Weitragau), which had also formerly belonged to the Kingdom of Bohemia and whose inhabitants had preserved their nationality, were incorporated in the Republic, as were also districts in the vicinity of Břeclava (Lundenburg) for the same reasons. On the other hand, the fate of the districts round Těšín (Teschen) in Silesia, and of portions of the Orava and Spiš districts in Slovakia, was to have been referred to a plebiscite ; but this was forestalled by an agreement voluntarily entered into between Poland and Czechoslovakia, by which the latter ceded parts of these regions to Poland. Under the Treaty of Trianon the Republic received, as a semi-autonomous district, Podkarpatská Rus (Carpatho-Ruthenia), which is inhabited by a Russian population, while the Danube frontier was adjusted by the addition of the bridgehead of Bratislava (Pressburg).

Moreover, the Treaty of Versailles has brought our inland State to some extent nearer the sea, by giving Czechoslovakia the right to make harbour arrangements at Hamburg, and by ensuring to her the free use of the Elbe for shipping traffic to and from Czechoslovakia. At the same time rights of shipping on the Danube, which was declared an international waterway, were awarded to us.

In order to understand the financial measures which were carried through after the war, the following facts must be kept in mind.

Since 1867 the Austro-Hungarian Monarchy consisted of

two independent States, which were linked together on the one hand by the personality of the Sovereign, on the other by the administration of common affairs, based on identical laws adopted in both countries. These departments were the army, foreign affairs—diplomatic and consular—and the common Ministry of Finance, which controlled the common receipts and expenditure.

In addition to these common affairs there were other common interests whose agreed treatment was laid down and regulated, always ten years ahead, by laws passed in the Austrian and Hungarian Parliaments alike. These laws were called 'the Austro-Hungarian Compromise' (*Ausgleich*) and included:

1. The regulation of the customs. This was effected by the two States entering into a customs-union. The customs duties were raised by each State on its foreign frontiers, and the net receipts flowed into the common Treasury, which defrayed therefrom the expenditure on common affairs.

2. The regulation of the currency and coinage. A coinage-union was concluded, the basis of which, in accordance with the law of the 2nd of August 1892, was the gold krone, 3,280 kronen being minted from a kilo of pure gold. The Austro-Hungarian Banking Company was commissioned to withdraw the paper money and exchange it for the gold standard. The Government lent the Bank the proceeds of the gold loan to the amount of 392 million kronen in gold. The bank notes had to be fully covered by gold, bills of exchange, or loans against securities, but of the total cover at least 40 per cent. had to be in the form of gold. The bank notes were forced currency and were not exchangeable against gold. The Bank received the privilege of being the sole Bank of Issue during the ten-year period of adjustment.

3. Trade relations were to be regulated in common on the same grounds, including protection of commercial rights, control of the weights and measures, mutual trade relations, international goods traffic, legislation concerning indirect taxation, intimately related with industrial production (sugar,

spirits, beer, and similar taxes). In these matters, too, similar laws were passed in the Vienna Parliament for Austria and in the Parliament of Budapest for Hungary.

4. Finally, the system of defence was to be regulated in the same manner. The army was, indeed, under the common control of the joint Minister of War ; but such questions as the liability to serve, the duration of the period of military service and how many citizens were to be called up yearly (quota of those liable to serve) were decided by each State separately. As regards the financial relations, neither were common taxes raised for the common expenditure (army, foreign affairs, occupation of Bosnia and Herzegovina, the joint Ministry of War) nor could joint loans be contracted, as the Monarchy had no independent sources of income, while the customs duties of each State were collected by its own officials, and only their net proceeds were paid over. The remaining expenditure was covered by contributions from each State. The quotas falling to each State were agreed by the so-called 'Quota Deputations' of the Parliaments, who were always elected for ten years.

The common Budget was determined by the delegations, and the corresponding shares of the common expenditure were apportioned to the Budget of each State. The State debts are accordingly either Austrian or Hungarian or Austro-Hungarian.

Such were the arrangements between the States of Austria and Hungary. Within the former there existed also the Provinces (*Länder*), which had their own legislating Diets, administration and finances ; and hence the correct and the official title of Austria was 'the Kingdoms and Provinces represented in the Reichsrat'. All that was not expressly reserved under the Constitution to the Vienna Parliament (Reichsrat) was within the competence of the Diets. There were continual conflicts regarding this competence between the Government and the seventeen Diets—between the Centralists who were bent on extending the competence of the Reichsrat and the Autonomists who strove to enlarge the competence of the Diets.

In the domain of finance the Centralists sought to reduce the independent local taxation, and to limit the Provinces in the matter of their requirements merely to additions or increments to the direct State taxes and to fixed grants from the indirect taxes collected by the State. The Provinces were entitled constitutionally to raise increment taxation on every direct tax; and, to take an example, it was necessary in connexion with the introduction of the progressive personal income tax for seventeen Diets to forgo their rights in regard to increment taxation, which would have rendered the progressive principle quite unworkable.

The financial duties of the Provinces were by no means insignificant. They had to bear the expenditure for the teaching staff of the elementary and of the agricultural schools; to administer the hospitals throughout the whole Province; to maintain the asylums, lying-in and foundling institutions; their Diets were the controlling authority and, in case of appeal, the final authority for the Commune (Parish) and District; and in all matters affecting buildings, except State buildings, they had the deciding voice.

The Communal Autonomy—or Local Government—was most important and its duties very considerable, including, as they did, questions of the expenditure for the material maintenance of the elementary schools, the poor-law administration, and sanitation. Yet the Commune also had no independent taxation. Only local rates and increments based on the direct taxes were admissible.

The third kind of self-governing bodies were in Bohemia the District Committees, in Moravia the District Road Committees, coextensive in their jurisdiction with the District Courts. The functions of the District Committees in Bohemia were the upkeep of the district roads and of the district hospitals, the appointment and remuneration of district doctors, and the provision of work; and they were also Courts of Appeal for complaints against decisions of the Municipal Committees. Their finances were based solely on increments to the direct taxes. In Slovakia, besides the self-government of the Commune,

there was the local government of the 'Gau' (*župa*), or Region, Autonomy. Here, however, the regional overseer and his deputy were State officials, so that the regional offices were properly State offices.

The Bohemian nation, which had lost its full political independence, sought to maintain an influence on public affairs through local autonomy, and self-government was for the people a school of civic and political capacity. All endeavours to preserve Austria as a German State by means of electoral dispositions were frustrated by reason of the fact that the Bohemian citizens had grasped self-government as a means of saving and strengthening their nation. The Communes built communal schools and established grammar and secondary schools, the Districts erected hospitals and poor-houses and undertook the education and the care of the health of the people.

The Czechs strove by self-sacrifice to raise their moral power; what Vienna denied they defrayed themselves. They saved and saved, imposing on themselves national in addition to imperial taxes. They built and maintained schools for the children of workmen living among Germans; by subscription they built the National Theatre at Prague and other institutions.

At the same time they charged themselves with the care of their Slovak kinsmen labouring under Magyar oppression by founding an organization devoted to helping the Slovak people.

The nation which had lost its independence prepared itself by diligent labour for the recovery of freedom.

When the American people, by the mouth of their President, Woodrow Wilson, declared national self-determination to be one of the chief objects of the world war and of the participation in it of the United States, the Czech nation recognized that the hour of its independence was at hand, and that the trial, before the whole world, of its ability to rule itself and carry on its government in freedom, was imminent.

PART I

THE CURRENCY QUESTION

I

THE AUSTRO-HUNGARIAN CURRENCY PRIOR TO ITS STAMPING IN CZECHOSLOVAKIA

1. The first, greatest, and most anxious question claiming attention after the Revolution was the regulation of the currency and the monetary standard, for there was complete uncertainty as to the exact position of the exchange in Austria-Hungary. Immediately after the outbreak of war the Articles of Association of the Austro-Hungarian Bank had been altered in two points. Not only was the prohibition against granting loans to the State and the obligation as regards a 40 per cent. cover of the bank note issue suspended, but also the rule that the Bank of Issue should publish a statement as to its position every ten days. It was therefore not clear how many bank notes were in circulation and to what extent they were covered by bills and loans on securities. This alone was certain, that all gold and silver coins, as also the gold ducats, had disappeared from circulation, either because they had been hoarded, or worked up for industrial purposes, or sent over the frontiers. In any case this currency was not considerable: it amounted approximately to 300 million kronen in gold coin, and 200 million in silver coin.

2. The gold standard had, it is true, been introduced into Austria-Hungary, but the exchange of bank notes for gold was suspended, so that a species of crippled gold standard obtained. Moreover, bank notes were forced currency within the country. The population was therefore accustomed to paper money and accordingly the amount of coin in circulation was small.

But all indications pointed to the fact that an immense quantity of uncovered bank notes had been issued on Government account. As the financial houses declined to receive deposits at a higher rate than 1 per cent., everything was paid for in cash, and credit as a medium of trade had completely vanished.

3. The Austro-Hungarian Government was entitled, in accordance with the Articles, to require of the Austro-Hungarian Bank a 5 per cent. tax in respect of those bank notes which had been issued in excess of the quota. This quota corresponded to the amount of the gold reserve plus 600 million kronen. If, for instance, the metal reserve amounted to 1,500 million kronen, a 5 per cent. tax was due to the State in respect of bank notes issued in excess of 2,100 million kronen. The object of this measure was to compel the Bank to maintain the metal reserve at a sufficiently high level and not to increase the amount of the currency, and, by raising the rate of discount, to put a check upon any excessive increase, as otherwise, with a lower rate than 5 per cent., the Bank would have suffered loss.

4. The last statement before the war, dated the 23rd of July 1914, was as follows :

ASSETS

	kr.		*kr.*
Metal reserve :			
Gold coins of the krone denomination, gold in bars, foreign and trade coins, reckoned at kr. 3,278 to the kilo fine	1,237,878,750·23		
Gold bills on places abroad and foreign notes	60,000,000·00		
Silver currency and small coins	291,368,322·39		
	1,589,247,072·62	—	7,536,157·50
Discounted bills, warrants and securities	767,830,517·82	—	5,173,499·31
Loans on personal security	186,525,600·00	—	3,893,300·00
Debt of the Imperial Austrian Government	60,000,000·00		
Securities	17,617,601·03	+	42,907·93
Mortgage loans	299,994,062·34	+	442·96
Other assets	115,292,520·62	—	12,017,089·99
	3,036,507,464·43		

LIABILITIES

	kr.		*kr.*
Share capital	210,000,000·00		
Reserve fund	32,159,903·13		
Bank-note circulation	2,129,759,250·00	—	42,651,690·00
Current accounts and other short-date liabilities	291,270,109·97	+	8,729,888·41
Mortgage bonds in circulation	291,267,800·00	+	57,000·00
Other liabilities	82,050,401·33	+	5,666,105·68
	3,036,507,464·43		

	kr.
The metal reserve was	1,589,000,000
Add	600,000,000
Amount free of tax was	2,189,000,000
The bank-note circulation was	2,129,700,000
Balance free of tax	59,000,000

The admissible circulation amounted to 3,973,000,000 kr., 40 per cent. of which is 1,589,000,000 i.e. the amount of the metal reserve.

The statement up to the 26th of October 1918, the day before the Revolution (the 27th of October 1918 was a Sunday) was as follows :

ASSETS

	kr.	*kr.*
1. Metal reserve :		
Gold coins of the krone denomination, gold in bars, foreign and trade coins, reckoned at kr. 3,278 to the kilo fine	267,722,585·76	
Gold bills on places abroad	17,286,867·93	
Silver currency and small coins	57,332,381·38	
		342,341,835·07
2. Treasury bills of the War Loan Office		100,241,250·00
3. Discounted bills, warrants and securities		2,812,946,303·09
4. Loans on personal security		4,094,582,400·00
5. Debt of the Imperial Austrian Government		60,000,000·00
6. Loan debt of the Imperial Austrian Government		19,634,000,000·00
7. Loan debt of the Hungarian Government		6,798,000,000·00
8. Securities		57,177,562·19
9. Mortgage loans		280,667,735·42
10. Treasury bill claims on :		
(*a*) the Austrian Government		1,862,997,276·00
(*b*) the Hungarian Government		1,066,243,724·00
11. Other assets		1,198,106,013·25
		38,307,304,099·02

LIABILITIES

1. Share capital	210,000,000·00
2. Reserve fund	42,190,269·39
3. Bank-note circulation	30,679,675,403·00
4. Current accounts	2,849,017,835·84
5. Mortgage bonds in circulation	274,721,200·00
6. Treasury bills in circulation	2,929,249,000·00
7. Other liabilities	1,322,458,390·79
	38,307,304,099·02

The alterations during the war are clear :

	23 July 1914	*26 October 1918*	
Metal reserve and bills	1,589,247,072	342,341,835	— 1,246,905,237
Bank-note circulation	2,129,759,250	30,679,675,403	+28,549,916,153
Current accounts (obligations maturing daily and exchangeable for bank notes)	291,270,110	2,849,017,835	+ 2,557,747,725
Bank-note circulation covered by metal	75 per cent.	1·11 per cent.	—73·88 per cent.
Circulation and current accounts covered by metal	65·7 per cent.	1·02 per cent.	—64·67 per cent.

On the 23rd of July 1914 the available cover of the bank notes in circulation and of the daily maturing obligations exceeded the requisite gold cover, as the possible circulation amounted to

	kr.	*kr.*
	2,129,759,250+291,270,109, i. e.	2,421,029,359
As against this the metal reserve and 60 million kr. bills amounted to	1,589,247,072	
The commercial bills on hand	767,830,517	
Loans on securities	186,525,600	
		2,543,603,190
i. e. Excess cover		122,573,731

On the 26th of October 1918, however, the actual circulation together with current accounts and daily maturing obligations amounted to

	kr.	*kr.*	*kr.*
			33,528,693,238
Covered by metal reserve		342,341,835·07	
Bills cleared totalling	2,812,946,303·09		
Of which Govt. bills	2,800,000,000·00		
So that the actual commercial bills totalled only		12,946,303·09	
Loans (largely war loans)		4,094,382,404·00	
			4,449,670,542·16
So that the amount covered by the State and not by private legal liability was			29,079,012,696·84

that is 86·73 per cent. of the whole circulation.

This condition would be even more unfavourable if we exclude the advances made on war loans. These were undertaken in such a way as practically to effect conversion of the war loans into media of circulation. The loans were issued at 96 and bore interest at 5½ per cent. But the Austro-Hungarian Bank had undertaken to lend 75 per cent. of the nominal value of these loans at 5 per cent. The result was that after subscribing to the first loan, when the second was issued, people subscribed to it by borrowing 75 per cent. against the deposit of the first; whilst on the issue of the third loan they carried through the same process with the second loan, and so on. Thus they owed more than they possessed, and when the war loans fell to 60 per cent. the position of both borrowers and Bank was thoroughly unsound.

The position of the Bank was, however, still worse, if we take into account the transaction with regard to the so-called Treasury bills (*Kassenanweisungen*). Such an immense quantity of paper money was in circulation that credit disappeared, bills and other debts were paid to the financial houses, nobody borrowed money, and there was a rush of deposits to the banks, savings banks, and loan banks. The financial houses were unable to place these deposits either on loan to commerce and industry, or on mortgage: indeed they reduced the rate of interest to 1 per cent. and later to ½ per cent., but in vain. The Government decided to exploit this situation, and gave the Bank the right to issue 4 per cent. Treasury bills, the proceeds of which it paid over to the Government, which again set them in circulation. The Government certainly made itself responsible to the Bank for paying the bills at their maturity, but it had not the means to do so: the Bank would have had to lend these sums to the Government and issue fresh bank notes for the purpose of paying the Treasury bills. In the statement of assets (*supra*, p. 9) the amounts would have been transferred from item 10 (*a*) and (*b*) to items 6 and 7, and, in the liabilities, from item 6 to item 3, i.e. the circulation would have been increased by 3 milliards, so that it would have reached a figure of 36·5 milliards and been covered by 4·4

milliards. But in this cover were included the doubtful advances on war loans amounting to 4 milliards, so that the actual cover would have amounted to 400 millions, i.e. somewhat over 1 per cent. As a matter of fact, the Austro-Hungarian Bank arranged the transaction in its Report to the General Meeting of 1919, by paying the Treasury bills, which had meanwhile risen to 6,600 million kr., by means of freshly printed bank notes, debiting the former Austro-Hungarian Monarchy with the amount.

5. From this it is evident that the bank notes in circulation had ceased to be actual bank notes. Nominally they were bank notes, in reality, however, Government notes of the Austro-Hungarian Monarchy ; and, considering that they were not exchangeable for gold and were forced currency, they might quite correctly be regarded as a Government bank-note debt, or as a Government forced loan, the Government, not the Bank, being the debtor, and every one who had accepted bank notes a creditor. In fact, the crippled gold standard had been replaced by an immensely inflated paper currency.

Trade and industry were cut out owing to war management, all work and all production being destined for the prosecution of the war. Three-quarters of the population lived at the State's expense—the soldiers in the trenches, at home the families of those on service who were in receipt of State allowances, the miners, the labourers in the naphtha pits, the railway employees, the workers in the factories for the production of munitions, arms, uniforms, boots, flour, biscuits, &c. These State payments were barren, created no additional economic goods but only things which were either destroyed in battle or used up by the combatants, which were paid for by newly printed bank notes without any economic basis, by bank notes which did not represent goods, the proceeds of which again returned to the Bank by the payment of bills, from whose value the bank notes themselves originated. Before the war the Austro-Hungarian Bank had, at the time of the most favourable market conditions in the autumn, 2,800 million kronen in circulation, inclusive of small coin ; while now it had,

inclusive of small coin, a circulation amounting to 31,000 million kronen, i.e. eleven times as much, and this amount included a mass of State notes, which at best could only be reduced by the bills in the Bank's hands, and which neither increased in value under favourable conditions nor fell with a lessened demand for money—a fact certainly indicative of immense inflation.

6. All the depressing economic consequences of inflation made their appearance and may be summed up thus :

(*a*) At the very beginning of the war, and in order to make it popular, double prices were paid for grain, cattle, horses, waggons, &c., taken under military requisition ; wages were raised in the munitions and armament factories, then in the mines and naphtha pits ; allowances were paid to the dependants of the soldiers called up, so that their incomes were increased proportionately with these allowances. In this way 2,000 million kr. in bank notes was scattered among the population during the first days of the war, while at the same time immense quantities of grain, cattle, materials, &c., were transferred to the military depots. On the one hand the incomes and, in consequence, the purchasing power of individuals and of large sections of the population increased, while concurrently the supplies of articles of necessity were diminished. Those in receipt of increased incomes were ready to pay higher prices for less necessary requirements, and thus prices mounted up and compelled a rise of wages, salaries and profits of undertakings throughout the whole field of business. The same fact led to a rise in the salaries of State officials, of the allowances paid to the families of men on service, and of the pay of the officers and rank and file. The State Budget grew, the taxes were not raised, indeed not even collected ; but printing went on merrily.

(*b*) The rise in incomes led, too, to a rise in the standard of living and to extravagance on the part of those who had suddenly acquired riches. Articles of luxury were most sought after. The thirst for amusement increased. Theatres, cinematograph shows and dances became the order of the day,

these entertainments being thronged in spite of five- and later ten-fold prices for admission.

(*c*) In trade mortgage debts were liquidated, and, with the enormous excess of currency, the custom of ready money payment was introduced, thus facilitating speculation. Every one knew that he could not lose if he bought goods and held them, for he was sure—particularly in view of the blockade established by the Allies—that the supply must constantly diminish, while the demand, both on the part of the Government and of the population, must tend to become more pressing, so that far higher prices would eventually be paid.

(*d*) The Government could, indeed, fix prices for requisitions for military needs, and also prices for requisitions for the requirements of the civil population, but it could not ensure for the army and the population an adequate supply of their necessities.

Government control of grain, meat, fat, milk, potatoes, materials, footwear, &c., was introduced, but the Government rations afforded adequate nourishment and clothing to none. Popular humour nicknamed the Ministry of Food the Ministry of Underfeeding. The reason was obvious. The army consumed of all these things twice as much as the soldiers had consumed while at home.

In spite of prohibitions against the malting of barley and the distillation of spirits from potatoes for the production of starch, the residue did not suffice for the nourishment of the population, all the less as the price fixed by Government was low, and the producers were either in arrear with their deliveries or entirely withheld them.

Abuses in rationing appeared and also a general endeavour to procure food and clothing by underhand means and payment of high prices on the sly. All these circumstances combined to tempt the producer to sell nothing to the Government at their low price, but to the individual at a high one. In the case of all things controlled by the Government there came to be two prices, the official and the secret, the latter being three to five times the former according to the amount of risk involved.

In this way a large number of people acquired extraordinarily high incomes, while on the other hand the sorely tried consumers who bought so dearly endeavoured by all possible means to increase their incomes; and the cause of the change in wages and salaries and, in consequence, of the cost of production was not the official but the secret prices prevailing.

Accordingly, not only did the attempt of the Government to reduce prices by official order fail—it was bound to fail according to the laws of political economy—but it had the effect of constantly driving prices and costs of production upwards.

(*e*) Want of confidence in the krone became ever more general, in spite of the fact that the true state of affairs was kept hidden through the non-disclosure of the Austro-Hungarian Bank's statements. Everybody saw the huge quantities of bank notes and the entire disappearance of gold. It was common knowledge why the gold reserve of the German Imperial Bank, which did publish statements, had increased, namely because Germany sold to its ally Austria-Hungary for gold. It was common knowledge that the Austro-Hungarian Government had withdrawn from the Bank 380 million kr. in gold, which it had lent to the Bank in 1892 when the change to a gold monetary standard was adopted. And it was common knowledge that payments to Holland and Switzerland were made in gold. And thus, with every failure of the Central Powers, an aversion to the krone set in, manifesting itself in the purchase of foreign currency (especially at the time before the entry of the United States into the war), of securities expressed in foreign gold currencies, of national securities, and also of goods, furniture, clothes and linen. In these times the peasant women sold only against materials and clothes, and the wardrobes of the middle classes found their way into the villages in exchange for flour, lard, butter and milk. The peasant women bought or bartered trousseaux for their daughters during the war; in many peasant cottages not only one but two pianos were to be found; and a peasant in the neighbourhood of

Pisek, who already possessed every conceivable thing, finally bought himself a coffin with his paper kronen. On the other hand, the tradespeople refused to sell the country people goods, and the artisans to do work for them, except in return for milk, eggs, fowls, &c. Whoever had witnessed these contortions of the body politic and recognized the danger that, by the continued printing of uncovered bank notes, we might descend, not only from a credit system to ready money payment, but even to a system of barter, must have regarded the restoration of the currency and the prevention of inflation with its terrible consequences as a prime duty.

7. When I took over the portfolio of the Ministry of Finance in the new Republic of Czechoslovakia it was my intention, at first, to obviate the continuance of inflation by means of international intervention. I requested the Minister for Foreign Affairs, Dr. Edward Beneš, who was then staying in Paris in connexion with the settlement of the armistice conditions, to endeavour to have an International Commission appointed to control the German Imperial and the Austro-Hungarian Banks, whose duty should consist in the prevention of the issue of bank notes not covered by private liability, in order to put a stop to the inflation. I pointed to the fact that the advent of peace must lead to a regulation of the monetary conditions and that a beginning should be made by preventing the further inflation caused by printing bank notes for the States. This idea of international intervention came to nothing, either because the nations with sound currencies could not imagine the terrible conditions of a paper currency inflation and its disastrous consequences, or because they were not in the humour to champion the rights of the conquered. Whoever perceives now to what inflation in Austria, Germany, and Poland has led, and is now obliged to experience the effects of German dumping on his own country's economic condition, will assuredly wish that my idea had been given a fair trial.

During the course of the peace negotiations, too, I repeatedly drew the attention of the Minister, Dr. Beneš, to the conse-

quences which must ensue if the two Banks of Issue were permitted to carry on without restriction.

8. I did not, however, await international intervention, but proceeded independently, in the expectation that the condition of affairs would elicit a change in the views of the Allies. In the first instance I negotiated with the Austro-Hungarian Bank for the maintenance, for a while, of the common currency, on the following conditions :

(1) Each of the States that had arisen on the territory of Austria and Hungary, or had inherited a portion of this territory, should have the right to nominate a Government Commissioner to superintend the affairs of the Bank. (The former Austro-Hungarian Monarchy had also had such a Commissioner).

(2) It should not be permissible to make advances on the war loans, and this not only having regard to the inflation, but also because the Bank had put forward the obligation assumed by the Austro-Hungarian Government to indemnify the Bank for losses arising from advances made on the war loans, and because it was essential to take immediate steps to prevent this obligation being transferred to the Government of Czechoslovakia.

(3) The Bank should not be permitted to grant loans to any State, except by agreement with all the Succession States.

The first condition was conceded, and Czechoslovak, Austrian, Hungarian, Jugoslav, Polish, Roumanian and Italian Commissioners were appointed. The second condition the Bank was not disposed to comply with. The third condition it accepted as a matter of course. In consequence I prohibited all branches of the Austro-Hungarian Bank in the territory of the Czechoslovak Republic from lending on Austrian and Hungarian war loans, the reason for this measure being the following considerations.

The position of the war debts on the 31st of October 1918 was as follows :

	Austria. kr.	*Hungary.* kr.	*Together.* kr.
1. War Loans:			
(*a*) Publicly subscribed .	35,069,002,650	15,667,835,850	50,736,838,500
(*b*) Not publicly subscribed	161,600,000	2,950,000,000	3,111,600,000
2. Debts to the Austro-Hungarian Bank:			
(*a*) Loans . . .	23,596,800,000	9,042,700,000	32,639,500,000
(*b*) Treasury bills . .	1,822,352,424	1,125,489,092	2,947,841,516
3. Advances by national financial houses (on the next war loan)	4,009,186,335	2,562,225,283	6,571,411,618
4. Mark debts . . .	3,170,576,556	1,700,268,444	4,870,845,000
5. Dutch gulden debts . .	83,899,908	31,248,000	115,147,908
6. Bulgarian leva debts . .	3,427,200		3,427,200
7. Danish kroner debts . .	27,212,985	9,724,050	36,937,035
8. Swedish kroner debts . .	10,525,401	2,007,049	12,532,450
(Debts under 4–8 converted according to gold parity) . .	67,954,583,459	33,091,497,768	101,046,081,227

In addition the army authorities owed the various army contractors a considerable sum, estimated at 5,000 million kronen.

This statement of the war debt makes it clear that exchange conditions were threatened owing to the fact that the Austro-Hungarian Bank took over the guarantee, as surety and payer, for the individual debts set out under headings 5 to 8, and could either make payment in gold or could print as many new bank notes as might be required by the exchange. This proceeding it was the duty of the Government Commissioner, with his right of veto, to superintend.

The war loans under heading 1 constituted a serious menace of an excessive increase in the currency, as the Bank was under obligation to lend on them 75 per cent. of their nominal value at 5 per cent., although they bore interest at $5\frac{1}{2}$ per cent. and were quoted at 60. But on the other hand was the Austro-Hungarian Government's undertaking to indemnify the Bank for losses arising from such loans. The Bank acted therefore in a most unbusinesslike manner in establishing neither the solvency nor the identity of the borrowers, and so facilitating the conversion of war loans and the attempts to get rid of them. There existed, therefore, a well-founded apprehension that under these favourable conditions the war loans would be loaned *en masse* and converted into currency, thus increasing the inflation. That this

apprehension was well founded soon became evident. On a single day, the 7th of November 1918, advances were made by the Austro-Hungarian Bank on war loan to an amount of 609 millions, and in the period from the 26th of October 1918 to the 26th of February 1919, that is within four months, the advances on war loan made by the Bank rose from 4,094·5 million kr. (representing a nominal value of 5,120 million kr.) to 9,319 million kr., i.e. the currency was increased in this manner by 5,224·5 millions, or by five milliards more than during the whole war. In fact, advances on war loan to the extent of 11,649 million kronen nominal, i.e. 23 per cent. of all the war loans together, had been made by the Austro-Hungarian Bank. The branches of the Austro-Hungarian Bank in the Republic were prohibited from making advances on war loan and accordingly they remained at their previous amount, viz. 472 million kronen.

9. At the very outset the Austro-Hungarian Bank ignored its undertaking to print no bank notes for a State without the approval of all the other Succession States. For the Lamasch Government, which had taken office a few days before the capitulation and ruled in an Austria already fallen to pieces, approached the Bank with the request for a loan to this former State of 2,000 million kr. The Government of Czechoslovakia protested against this printing of bank notes, but none the less the notes were printed.

10. This proceeding made it clear to the Czechoslovak Government that it must prepare for separation from the Austro-Hungarian currency and the Austro-Hungarian Bank. To carry this step through at once was, however, impracticable, for it was simply out of the question to print ten milliards in bank notes immediately and to exchange them for the notes of the Austro-Hungarian Bank circulating in Czechoslovak territory. Even large American firms were unwilling to accept orders with a shorter delivery period than six months. Moreover, the stamping of the notes involved the printing of an immense number of stamps.

11. In addition to these technical difficulties there were also others of an economic character.

The Revolution, Bolshified Vienna, and the continuous disturbances in the neighbouring States, provoked a great hoarding of money—hoarding to such an extent that a dearth of means of payment set in; and the National Assembly had to determine on preventive measures, which at the outset consisted in providing alternative media of payment in the event of the crisis not being overcome.

Moreover, the Vienna Post Office Savings Bank, which made effective arrangements through its warrant department for transactions other than in cash, was completely immobilized by the war loans; nobody wished to make deposits and, as it was without funds in the Bohemian districts, the post offices refused to honour its warrants.

Similar conditions prevailed with regard to the Hungarian Post Office Savings Bank in Budapest. The consequence was that commercial and industrial undertakings maintained large supplies of ready money, as they had no assurance that their cheques would be honoured. Thus hoarding increased.

Under these difficult circumstances I proposed to the Post Office authorities the establishment of a Czechoslovak Post Office Savings Bank in the following manner. The deposit certificates, against which post offices make payment, were to remain the same old Austrian or Hungarian ones, but by crossing a certificate in red a person could give instructions to have it sent to the Czechoslovak Post Office Savings Bank in Prague, which would credit the deposit on an account bearing the same number that the owner of the account had at Vienna or Budapest, advising him accordingly. The owner could likewise draw the amount by means of a red crossed cheque. Non-crossed cheques were to go to Vienna. The Post Office Department wrote to Vienna for Czech officials, had the necessary accounting forms prepared, and, by the 20th of November 1918, three weeks after the Revolution, the new Post Office Savings Bank began its career.

12. These were the difficulties which hoarding caused throughout all the territory of the former Austro-Hungarian Monarchy. The Austro-Hungarian Bank could not keep pace

with the necessary printing, and wanted to introduce 10,000 kr. notes, and 25 and 200 kr. notes printed on one side. The other States agreed, but not the Republic of Czechoslovakia, which objected to their issue and refused to give them forced circulation. The reason for doing so was the need for stemming the inflation, and also, in the case of the 25 and 200 kr. notes, the facility of counterfeiting this very crudely printed form of money. Although this refusal to recognize them certainly added to the existing difficulties, for the sugar season with its heavy demands for money was just then in full swing, yet the Czechoslovak Government preferred this course in its fight against inflation; and on the 14th of November 1918 it issued instructions to the chief office of the Austro-Hungarian Bank in Prague and its branches, forbidding them to pay out to the banks sums on current account, unless the latter were able to prove that they themselves had not the requisite amounts in cash for the payment of the wages and salaries of undertakings financed by them.

For it had been shown that the financial houses also were keeping large sums in cash handy owing to their apprehension of 'runs' on the bank on the part of disquieted depositors; and by so doing they accentuated the money crisis.

13. Gradually the waves of disturbance calmed down. Peace and order reigned in the Czechoslovak Republic, and money returned to the banks, and in such profusion indeed that it was quite impossible to utilize it. The banks reduced the rate of interest to 1 per cent. and, later, to ½ per cent., and eventually declined altogether to receive further deposits. This foreshadowed a further serious disturbing factor as a concomitant feature of the inflation, namely the feverish extravagance of the public, to whom such a trifling rate of interest did not appeal, and who, accordingly, kept their money at home and spent it, because it brought in nothing. This state of affairs was partly met by the issue of a 4 per cent. State Liberty Loan at par. 500 million kr. were issued and in five days 1,072 million kr. were subscribed, while, on the 22nd of December, 500 million kr. and, later, a further 500 million

were taken up. But, as this loan was utilized for State payments, the inflation was again noticeable within a short time.

14. Meanwhile the Austro-Hungarian Bank continued printing notes. Although, in view of our protest, the application of Austria for a note loan was not complied with, yet further amounts for milliards were printed for Hungary. Accordingly, preparations for abandoning the Austro-Hungarian currency were pushed forward in every possible way. First of all the question had to be decided whether simply all bank notes circulating within the territory of the Republic should be stamped or whether consideration should be shown to the nationals of the Republic in possession of notes. The former (the territorial) principle was adopted as the simplest and, indeed, the only possible. The second principle—that of the nationality of the holders—would have led to the determination of their nationality, and an alien could simply have handed over his money to a national of the Republic to be stamped. From the very nature of paper money with forced circulation it follows that the personality of the possessor does not matter, as it has forced circulation only throughout a definite territory and outside that has merely a commodity value. The adoption of this territorial principle involved the closing of the frontiers and cessation of railway communication, in order to prevent the introduction of kronen from abroad for the purpose of being stamped; and, as business cannot be subjected to prolonged disturbance, it was necessary to have the stamping carried out rapidly and so organized that no disturbance or embarrassment should arise.

15. This was the more essential as it was the intention, concomitantly with the stamping, to withhold half of the bank notes presented as a 1 per cent. compulsory loan, and it was necessary, therefore, to issue simultaneously Government bonds. These, it was decided, should be modelled on the form of the Savings Bank deposit certificates. The loan was not to be used for expenditure, but the bank notes withheld were to be withdrawn from circulation and preserved, in order thus to reduce the inflation.

On what does the cure of inflation primarily depend? On the reintroduction of the credit system through contraction of the currency. The considerations on which I proceeded were the following. A paper currency without gold basis is certainly possible, but it can be sound only if such a quantity of bank notes uncovered by private legal liability is in circulation as is just requisite for the daily necessities of life, all other business requirements being met by credit dealings with a bank of issue. For then the circulation is elastic and adapts itself readily to the needs of business, while the bank of issue is in a position to regulate such a circulation by raising or lowering the discount rate. This rate operates upon the rate of exchange abroad. Bank notes issued on the ground of credit have, besides the guarantee of the bank, the cover of private legal liability, for the basis of their issue is a bill of exchange signed by two or three registered merchants, and among these merchants there is, as a rule, a trade bank with the obligation of publishing its accounts. Thus the entire sum of bank notes issued on the ground of credit operations has its economic basis, while the sum issued for consumption circulation has its foundation in daily needs.

The latter is not easily estimated, as it adjusts itself according to the prices of articles of consumption. If underestimated, the business system helps itself by making payments otherwise than in cash, e.g. by the use of the cheque even for payment of articles of consumption and for payment of salaries and wages, and by getting goods on credit, &c. Much worse it is, if the sum assignable to consumption is too high, for this entails ready-money payments on an extended scale even where the circulation of trade goods would call into play the bill of exchange, the cheque or the commercial draft. For this reason the circulation of notes loses its elasticity, and the raising or reduction of the rate of interest has no effect.

When the Austro-Hungarian Bank had issued bank notes for 30 milliard kronen, while the circulation of articles for consumption required only two milliards, it was a matter of indifference whether it fixed the discount rate at 1 or at 10 per

cent., for nobody came to apply for credit or for the discount of bills. So that—as indicated above—with a circulation of 30,000 million kronen, it had bills for 12 million, and a raising of the discount rate could have withdrawn, at the utmost, 12 million kronen from circulation.

I wanted, originally, to withhold 80 per cent. of the bank notes, so that approximately two milliards would have remained in circulation ; to arrange at the same time for payment of all the salaries of State employees by means of cheques on compulsory cheque accounts assigned to them with financial houses ; and to establish a new bank of issue forthwith. The Government should have got a loan in the United States of 100 million dollars in gold, and left the money in America, while, however, assigning it to the new bank of issue, in order to be in a position to withdraw the two milliard old bank notes circulating, and to exchange them for the bank notes covered by the American loan. In this way we should have come in for the crippled gold standard ; but only the consumption sum of two milliards would have been covered in gold, and the excess over this amount would have had to be derived through credit.

The bank notes would certainly not have been exchangeable for gold, but by means of a good bill and discount system the international exchange rate could have been maintained at par. The example of the Austro-Hungarian Bank's method before the war was indeed tempting. In that case too there was no obligation to exchange, and the bank notes were forced currency ; yet, from the year 1893 to the year 1914, the Austro-Hungarian Bank had succeeded, by its bill and discount system, in maintaining the quotation of the krone at gold parity.

With us this would have been simpler, as we have robust export industries—sugar, malt, beer, spirits, textile goods, shoes, glass, wood and wooden goods, machinery, &c.—and at least 60 per cent. of the industries of the former Austro-Hungarian State are centred in the Czechoslovak Republic, while its territory represents only a third of the fallen Monarchy's possessions.

But, in order to ensure the success of the bill system and

a credit trade balance, it was my intention to raise a 50 million dollar loan abroad for the purpose of providing the raw materials essential to the rehabilitation of industry and to the reorganization of the railway system, half destroyed by the war, as well as the necessary half-finished or fully manufactured goods. The eight milliard kronen (roughly) of bank notes retained were to have been withdrawn from circulation by means of the property tax.

16. This plan for a radical cure of inflation and an improvement of the currency could not be carried through. In the National Assembly there were apprehensions that a serious crisis would arise should the purchasing power of the krone at home and its exchange quotation abroad be suddenly raised.

Personally I was well aware that this method of cure would provoke a crisis, but I preferred this solution to the continuous feverish condition which inflation and confusion in the money standard entail. It seemed to me that a chronic illness, with the periodic and frequent crises inevitable to such a condition, accompanied by the constant variations in the purchasing power of the krone under pressure of the fluctuating international exchange, which lead to recurring wages disputes, was more dangerous to the development of a young State than a radical operation.

Accordingly, the plan now put into operation is a compromise, the object of which is to stay the inflation, to dam it and gradually get rid of it, and to return by stages to normal conditions.

II

PROPOSALS FOR A RESTORATION OF THE CURRENCY

17. On the 25th of February 1919 the National Assembly in secret session passed a law empowering the Minister of Finance to undertake the stamping of the bank notes, by means of a stamp representing a percentage of the nominal value of the notes, and further to withhold from circulation 50 per cent. of the bank notes presented, and to declare them a Government

loan, irredeemable by the creditor but repayable on the part of the State at any time and carrying 1 per cent. interest. As this loan was intended to serve as security for the property tax, it was declared to be not attachable, not mortgageable, and not transferable inter vivos. Transfer was also made impossible, because by selling the forced loan the owners, especially poor people, would have suffered heavy losses by reason of the 1 per cent. rate of interest.

18. In the same way 50 per cent. at 1 per cent. interest was retained from the current accounts at branch offices of the Austro-Hungarian Bank on Czechoslovak territory, and from the Treasury bills issued by these branch offices.

It would not have been necessary, indeed, to take over these accounts and bills because they constituted, not an actual, but only a potential future circulation. But not to have done so would have meant a paralysis of, and a loss to the banks, savings banks, and peoples' loan banks, i.e. a threat to the business life of the country. The Austro-Hungarian Bank could have discharged its obligations by paying them with its unstamped bank notes, and the financial houses would have lost by the difference between the stamped and the unstamped krone 50 and, later, 75 per cent.

19. The stamping had to be carried out with rapidity. On the night of 25th–26th of February 1919, all frontier traffic was stopped, and the entire frontier placed under military guard. In the interior the stamping was carried out at the financial houses, which were declared Government Commissions, their officials being sworn in as State officials for the occasion. A general civic obligation to work was introduced, and Government departments had the right to assign not only State officials, but also private employees with a knowledge of banking business, to the financial houses.

20. Only the 10, 20, 50, 100 and 1,000 kronen bank notes were stamped. The one- and two-kronen notes were provisionally excluded from the stamping and left in circulation. The quantity of these in the whole former Monarchy was limited to 800 million kronen and there was therefore little danger of

their being brought into the country; on the other hand, the provision of a huge number of stamps would have burdened the whole operation.

Excluded altogether from stamping were the 25 and 200 kronen notes printed on one side only, as well as the 10,000 kronen notes, which, as mentioned, had not been recognized or put into compulsory circulation in the territory of the Republic.

21. In order to bring the stamping to the knowledge of every inhabitant of the State, the following measures were adopted:

1. Hand bills were placarded at the street corners, in railway cars, and in post offices. All newspapers were required to publish the notice.
2. Lectures on the stamping were to be given in all schools and churches, and specific instructions how each person was to behave.
3. In addition, in all communes the stamping was to be verbally proclaimed to the roll of the drum.

The duty and the right of presenting the bank notes of the whole family rested exclusively with the head of the family. The expression 'head of the family' and its meaning are familiar to every one, for the income tax is based on the principle that the earnings of all members of a family living together are aggregated in one return. The decision was also intended to prevent the artificial splitting up of cash, as by the law of the the 25th of February, the Minister of Finance was empowered, for reasons of a social nature, to exempt from collection the smaller compulsory loans. The measure was adopted for this reason, too, that the property tax was to be assessed on the head of the family, in respect of his own property and that of the members of his family living with him.

22. It was indeed essential to prevent individuals transferring their cash to others, and, accordingly, postal communication with foreign countries was suspended for the period the 26th of February to the 9th of March 1919. From the 1st to the 9th of March 1919 post offices were forbidden to receive

any money remittances, while deposits in the Post Office Savings Bank were prohibited. Creditors were not obliged to accept payment of claims originating before the 26th of February 1919, and a moratorium was proclaimed for the period of the 26th of February to the 9th of March to cover all claims.

Financial houses were not allowed to accept deposits of any kind during this period, and they were permitted to pay out deposits only with the approval of the District Commission. Tradesmen were not obliged to sell goods for unstamped bank notes, with the exception of daily necessities such as food, fuel, and lighting material and medicaments, and then only according to actual requirements; and they had the option either to accept unstamped bank notes, or to give credit till the 10th of March 1919 and then receive payment in stamped bank notes. But on the very first day a large number of stamped bank notes were available, as the monthly salaries of officials to the extent of one quarter, and also the weekly wages of labourers were paid in stamped bank notes.

The stamping was kept a complete secret up to the last moment, the 25th of February. Although people tried, spasmodically, to get rid of their money, they succeeded only in a limited degree, and only by purchasing at considerably increased prices.

The stamping was carried out, without complaint or disturbance, in the period from the 3rd to the 9th of March 1919, that is within seven days, throughout the whole Republic, and the 1 per cent. compulsory loan was taken up without demur.

23. Allowing for sums of less than 300 kronen exempted from the compulsory loan on technical grounds, the amount withheld was:

	kr.
In bank notes	2,134,149,000
Half of the Non-Government accounts . .	413,582,039
Half of the Treasury bills	233,767,000
Total	2,781,498,039

There were in all 7,436 million kronen in bank notes in circulation, so that from the actual circulation, 2,134 million

kronen, or 28·69 per cent., was withheld, as the bank notes in the State Offices were not withheld, and wages and a quarter of the monthly salaries, as also sums up to 300 kronen, had been exempted. The possible circulation, if we add to the bank-note circulation the current accounts, 1,616 million kronen, and the Treasury bills, 468 million kronen,

amounted to	9,520	million kronen
less withheld	2,781·5	,, ,,
so that the possible circulation amounted to . .	6,738·5	,, ,,

and had been restricted by 29·27 per cent.[1]

24. Fears were generally expressed that a restriction of this kind would result in a dearth of currency and a financial and industrial crisis. Nothing of the kind happened. On the contrary it was evident that the withdrawal of 50 per cent. of the bank notes was inadequate, for the half that remained had almost the same ultimate effect. The remaining currency was still large enough to admit generally of everything being paid for in cash. Not until the inflation and the increase of incomes (wages, salaries, &c.) had reduced the purchasing power of the krone did an extension of the credit system take place.

25. On the 26th of February 1919 the Austro-Hungarian Bank sent a telegraphic protest against the stamping of the bank notes, because, as alleged, its privilege was thereby infringed. I replied to this protest with a letter indicating the reasons for my proceeding, and which I, therefore, reproduce textually:

'I decline to take cognizance of the telegraphic protest of the 26th of February 1919, because, as I have repeatedly had occasion to point out, the Austro-Hungarian Bank has failed

[1] These amounts were increased by the exchange of the one- and two-kronen notes, and, further, by the exchange of bank notes against State notes in Podkarpatská-Rus (Carpatho-Ruthenia) and in other districts ceded to the Czechoslovak Republic under the Peace Treaty. In these localities, however, no stamping was carried out, and the whole amounts exchanged had to be retained so that the position up to the 31st of October 1921 was:

	kr.
Bank notes presented . . .	8,000,052,936
Withheld	2,450,071,967
that is 30·62 per cent.	

to comply with its statutory obligations and has granted loans to the States which have originated on the territory of former Austria-Hungary in violation of the obvious import of its Articles and of the agreement arrived at with the Czechoslovak Republic. The Austro-Hungarian Bank has made advances of 75 per cent. on deposits of War Loan, although the price of this security had fallen to 60 per cent., and has thereby shown a total disregard alike of the interests of its shareholders and of the State, by quite unnecessarily increasing the amount of the currency at a time when financial houses were offering either one or a half per cent. interest, or else none at all. The Austro-Hungarian Bank has thus become merely a printing press for bank notes, and has ceased to be a bank of issue, whose duty it is, in accordance with the spirit of its Articles, to further the business life of the country. The Czechoslovak Republic was prepared to maintain, for a while, the common currency only on the condition that loans should not be granted by the Austro-Hungarian Bank to any of the States originating in the territory of Austria-Hungary except with the concurrence of all of them. The Austro-Hungarian Bank and the other States have not observed this undertaking; on the contrary the Austro-Hungarian Bank has declared that it would grant loans to the Hungarian Republic and has secretly, and without the knowledge of the Commissioner of our State, granted loans to German Austria. It is not possible, therefore, that the Czechoslovak Republic should refrain from adopting measures of defence against the systematic destruction of the Austro-Hungarian krone. By its whole course of action the Austro-Hungarian Bank has also contravened the intention of its Articles that it should support the krone on the international money market. So far from doing so, through irresponsibly increasing the means of circulation, through loans to the Hungarian Republic and to German Austria, through the conversion of War Loans into bank notes by means of advances, it has, as the quotations of the Zürich Stock Exchange indicate, brought the international rate of exchange to a point which it never reached in the darkest days of the war.

'Accordingly I decline to take cognizance of the Austro-Hungarian Bank's protest, and shall continue my efforts to protect the currency of the Czechoslovak Republic even against the Austro-Hungarian Bank, which has turned a deaf ear to all protests and warnings on the part of the Czechoslovak Government.'

26. The proportion of the bank notes to the total circulation of the Austro-Hungarian Bank is clearly set out in its statement up to the 28th of February 1919, that is up to the day of the commencement of the stamping proceedings. The statement is as follows:

ASSETS

	kr.
Metal reserve:	
Gold coins of the krone denomination, gold in bars, in foreign and trade coins, reckoned at kr. 3,278 to the kilo fine	262,034,026·01
Gold bills on places abroad, and foreign notes	17,389,070·60
Silver currency and small coin	56,741,971·58
	336,165,068·19
Treasury bills of the War Loan Office	449,355,000·00
Discounted bills, warrants, and securities	2,808,331,127·64
Loans on personal security	9,319,027,600·00
Debt of the Imperial Austrian Government	60,000,000·00
Loan debt of the Imperial Government based on special agreements	22,034,000,000·00
Loan debt of the Royal Hungarian Government based on special agreements	10,374,000,000·00
Securities	54,943,871·44
Mortgage loans	275,483,943·00
Treasury bill claims on the Imperial Government	4,525,387,404·00
Treasury bill claims on the Royal Hungarian Government	2,590,001,596·00
Other assets	869,411,386·14
	53,696,106,996·41

LIABILITIES

	kr.
Share capital	210,000,000·00
Reserve fund	42,000,000·00
Bank-note circulation	37,569,605,018·00
Current accounts and other short date obligations	7,216,860,817·80
Mortgage bonds in circulation	269,439,200·00
Treasury-bill circulation	7,115,389,000·00
Other liabilities	1,272,812,960·61
	53,696,106,996·41

Bank rate since the 12th of April 1915 :

For discounting bills, warrants, securities, and for advances on the Austrian and Hungarian war loans	5	per cent.
For loans on Government annuities, partial-mortgage bonds, Austrian State Treasury notes, and amortized State Treasury bonds, Hungarian State Treasury bills and Treasury bonds, as also mortgage bonds of the Austro-Hungarian Bank. . .	5½	,,
Loans on other securities.	6	,,

There were, therefore, 37,569 million kronen bank notes of the Austro-Hungarian Bank in circulation on the 28th of February 1919. By means of the stamping a circulation of 7,436 million kronen, i.e. 19·7 per cent., was fixed for the territory of the Czechoslovak Republic, although its population amounts to 13 millions, i.e. a quarter of the total population of the former Empire. According to population the circulation should have amounted to a quarter, i.e. 9,392 million kronen.

The figure per capita in the whole of the Austro-Hungarian Empire (with 52 million inhabitants) was 722·5 kronen, yet in the Czechoslovak Republic, exclusive of Carpatho-Ruthenia, it was only 564 kronen of circulating bank notes per capita.

The possible circulation comprises :

The actual circulation	37,569	million kronen
increased by current accounts, to meet which an immediate issue of bank notes might have been required .	72,168·8	,, ,,
and by the Treasury bills	7,115·3	,, ,,
amounted on the 28th of February 1919 to . .	51,901·1	,, ,,

that is, the bank-note circulation might increase to this amount owing simply to demands on the part of the Bank's creditors.

At the time of stamping the possible circulation in the Czechoslovak Republic amounted, as mentioned above, to 9,520 million kronen (actual circulation 7,436 million kr. increased by 1,616 million kr. in current accounts and 468 million kr. Treasury bills), i.e. not even a fifth of the total possible circulation of the Austro-Hungarian Bank ; and while the per capita figure in the entire territory of the former Monarchy was 1,000 kr. of the possible circulation, in the Czechoslovak Republic, without Carpatho-Ruthenia, the per capita figure was only 724 kr.

If we investigate the way in which the position became worse since the Revolution, i. e. since the 28th of October 1918, we arrive at the following results. In the actual circulation on the 28th of October 1918, amounting to 30,680 million kronen, i. e. 592 kr. per capita, the Czechoslovak Republic, without Carpatho-Ruthenia, had a share of 7,696 million kr. ; that is, the actual circulation had decreased by 260 million kr., assuming, of course, that on the 28th of October 1918 the Czechoslovak Republic had a circulation corresponding, in proportion to the respective populations, to that of Austria-Hungary.

The possible circulation on the 28th of October 1918 amounted to :

Actual circulation	30,680	million	kronen
Current accounts	2,849	,,	,,
Treasury bills	2,929	,,	,,
Total	36,458	,,	,,
Against this, on 28 of February 1919	51,901	,,	,,
The increase was, therefore	15,443	,,	,,

Of this possible circulation there were, at the various branches of the Austro-Hungarian Bank in Czechoslovak territory :

	on 28.10.1918.	on 28.2.1919.
	(in million kronen)	
On current account	106·5	1,616
Treasury bills	425	468
Total	531·5	2,084

so that the increase in the possible circulation amounted to

	1,552·5	million	kronen
If we reckon the assumed reductions of the actual circulation at	260	,,	,,
there remains an increase of the possible circulation of	1,292·5	,,	,,

If the Czechoslovak Government had offered no opposition to the intrusion of the bank notes issued by the Austro-Hungarian Bank (by preventing payments into and out of the Vienna Post Office Savings Bank, by the prohibition against circulating the 25, the 200, and the 10,000 kr. bank notes,

and by other measures), the possible circulation would have increased to at least the average amount for Austria-Hungary, i. e. 1,000 kr. per capita, or 13,000 million in all. The ascertained possible circulation, however, amounted to 9,520 million kr., so that it was less by 3,480 million. As the bank notes issued in Vienna flowed through by transfer of the current accounts at the Austro-Hungarian Bank—as the above figures indicate —the Government, on the 6th of February 1918, prohibited these transfers from abroad. Thus, through the measures taken by the Finance Authorities, the Republic did indeed prevent inflation to the extent of 3,480 million kronen, but it could not prevent the increase by 1,292·5 million kronen. But this restriction of the inflation was of very much greater importance for the State; it denoted a reduction of the State note debt by 3,480 million kronen, because, by the Law of the 10th of April 1919 (Coll. L. a. O., No. 189) and later on by the Peace Treaties, all bank notes became State notes.

27. The Government did not wait to see how the question of the Austro-Hungarian Bank's notes would be settled at the Peace Conference, but continued working to effect the separation of the currencies by declaring the stamped bank notes State notes, i.e. a State debt; and by withdrawing all bank notes and exchanging them in equal amounts for State notes, so that the Czechoslovak Republic became, so far as concerned bank notes circulating in its territory, the exclusive creditor of the Austro-Hungarian Bank in respect of these notes and, on the other hand, the sole debtor to the possessors of the new State notes to an identical extent.

The basis of separation from the Austro-Hungarian currency standard was the Law of the 10th of April 1919 (Coll. L. a O., No. 189) concerning the regulation of the currency and the control of the media of payment in the Czechoslovak Republic, the terms of which were as follows :

SECTION 1

In the Czechoslovak State the right to issue media of payment and to mint coins is reserved, until further legal enactment, exclusively to the Government.

SECTION 2

The marked bank notes, within the meaning of the Law of the 25th of February 1919 (Coll. L. a. O., No. 84), so long as they are not exchanged for other media of payment, shall be legal tender, and the State and the individual alike shall be bound to accept them in payment according to their denomination value.

SECTION 3

The unmarked bank notes of the Austro-Hungarian Bank shall cease—in so far as the Ministry of Finance does not, with regard to particular denominations, temporarily decide otherwise—to be legal tender.

SECTION 4

This regulation shall involve no change in the legal position of the Austro-Hungarian Bank with regard to the bank notes it has issued. The Government of the Czechoslovak State reserves to itself, however, in regard to the bank notes marked within the meaning of the Law of the 25th of February 1919 (Coll. L. a. O., No. 84), the exclusive right to enforce claims arising from them against the Austro-Hungarian Bank.

SECTION 5

The currency unit for the Czechoslovak State shall be known as the Czechoslovak krone, abbreviated kč.

SECTION 6

Obligations expressed in Austro-Hungarian kronen, payable in the territory of the Czechoslovak State, shall be paid in Czechoslovak kronen, a Czechoslovak krone being reckoned as equivalent to an Austro-Hungarian krone. The Minister of Finance is empowered, in so far as international communication shall not be regulated by special State agreement, to authorize exceptions to this regulation.

No alteration shall take place in the validity of the Ordinance of the Administration of the Czechoslovak Republic of the 1st of April 1919 (Coll. L. a. O., No. 167).

SECTION 7

The gold, silver, nickel, bronze, and iron coins of the Austro-Hungarian krone standard, and the silver gulden of the Austrian standard, shall remain for the present in circulation. The Minister of Finance may authorize exceptions in this respect.

SECTION 8

The Minister of Finance is empowered to administer the State debt arising from the withdrawal of the bank notes, within the meaning of Section 1 of the Law of the 25th of February 1919 (Coll. L. a. O., No. 84),

as also the State debt contracted by virtue of the Law of the 25th of February 1919 (Coll. L. a. O., No. 88); to arrange for the provision and circulation of media of payment in the Czechoslovak State; and with this object to carry out whatever the circumstances require in relation to the Austro-Hungarian Bank either by agreement or ordinance; and, generally, pending further legislative enactment, to discharge the functions of a Government bank of issue; with this end in view to establish a Banking Department and engage assistance for operating it, or appoint such, either by contract or in virtue of the civic obligation to work; also, in order to facilitate the administration of the Banking Department, to appoint a Bank Committee and to determine within his powers the scope of its activities.

Section 9

The new media of payment which the Minister of Finance is empowered to issue for the purpose of exchanging the bank notes denoted by stamping or the unstamped notes temporarily left in circulation, shall be expressed in Czechoslovak kronen, and, as State notes, shall constitute a portion of the transition currency debt of the Czechoslovak State, which shall accept them according to their denomination value on presentation at its offices.

Every individual shall likewise be bound to accept them, according to the tenor of this Law.

Section 10

Any increase in the circulation of State notes in excess of the total amount of the bank notes defined as media of payment with forced circulation—a matter governed by the Law of the 25th of February 1919 (Coll. L. a. O., No. 84) and by the Ordinance issued by the Minister of Finance in conjunction with the Minister of Justice, dated the 25th of February 1919 (Coll. L. a. O., No. 86)—is only admissible if complete bank cover, subject to private legal liability, is available for these means of payment. Any other increase may be effected only by legislation.

The 'total amount' alluded to in the foregoing section shall consist of:

1. The bank notes provided with a stamp at the original stamping.
2. The bank notes issued up to one-half of the amount of those current accounts and Treasury bills of the Austro-Hungarian Bank, which were taken over within the meaning of the Ordinance of the Government of the Czechoslovak Republic of the 6th of March 1919 (Coll. L. a. O., No. 119).
3. The one- and two-kronen notes which are in circulation in the territory of the Czechoslovak Republic.

SECTION 11

In so far as the provisions of this Law are not already in force, and conform to the Laws of the 25th of February 1919 (Coll. L. a. O., Nos. 84 and 88), they shall take effect on the day of their promulgation.

SECTION 12

The execution of this Law shall devolve on the Minister of Finance.

28. This short law converted the bank notes of the Austro-Hungarian Bank into State notes. The new krone was designated the Czechoslovak krone (kč).

The obligations expressed in Austro-Hungarian kronen, payable in the territory of the Czechoslovak State, are now payable in Czechoslovak kronen, so that a Czechoslovak krone is reckoned as the equivalent of an Austro-Hungarian krone. The national bankruptcy which would have been entailed by a depreciation in the value of the Austro-Hungarian krone was thus prevented. The depreciation of the currency would have evoked memories of the Austro-Hungarian national bankruptcy in the year 1811 (Wallis system), more particularly throughout Austro-Hungarian territory. (Bank notes were exchanged for State notes at a rate of 20 per cent. and claims were paid according to a scale proportionate to the depreciation of the currency in the year in which they originated.)

The agitation antecedent to the passage of this law had taken three directions.

The first current of opinion. Dr. Jaroslav Preiss, Chief Superintendent of the Živnostenská Banka, advocated the solution of repudiating the bank notes of the Austro-Hungarian Bank. This would have entailed the establishment of a separate National Bank of Issue and a repeal of the compulsory circulation of the Austro-Hungarian bank notes. Every possessor of bank notes would then have had to cling to the Austro-Hungarian Bank, or rather to its bankrupt estate. The new currency unit, e.g. the franc, would have been the equivalent of the krone, so that there would have been no need of special reckoning. The Czechoslovak Republic, according to this plan, would simply not have recognized the bank notes

in circulation as legal tender, and would thus have unburdened itself of the bank-note debt. The justification for this far-reaching step lay in the fact that the bank notes were really a non-interest-bearing war loan with forced circulation; that they had been loaned to the State against the express provisions of the Bank's Articles, and therefore illegally loaned; and accordingly that there existed no obligation to pay.

This proposal had the defect that it was the State which would have disposed of its burden in this fashion, and that too at the expense of the inhabitants, who had accepted the bank notes with their forced circulation, and had, moreover, been obliged to accept them. The inequality of the resulting impoverishment would have been considerable. It is precisely the richest and, from a business point of view, most prominent citizens who have, in proportion to their total income, little ready money compared with small landowners, workmen, and others. Politically this proceeding was unworkable, for it was not even possible to sequester 80 per cent. of the ready money as a State loan, and it would have been wholly out of the question to rob all ready money of the character of legal tender.

The second current of opinion. Professor J. Koloušek and Professor Vl. Brdlík were in favour of a legal depreciation, somewhat after the pattern of the national bankruptcy of Count Wallis in the year 1811. The advocates of this solution did not take into account that the economic life of to-day is far more complex than that of 1811, and that different legal claims dovetail mutually into each other. This solution would have entailed much injustice, and would have opened the door to much unmerited profit-making.

The owners of real property would not have contributed at all: on the contrary, in so far as they had mortgages on their properties and houses, for which they had received good kronen, they would have repaid the loans in the depreciated currency, in spite of the fact that the value of property had remained stationary; and, expressed in the new currency unit, the value would have forthwith amounted to just so much

more as the old currency unit had depreciated. The entire burden of this measure would have fallen on the possessors of money and of money capital. The grading of claims according to the point of time of their origin and according to the depreciation at that time, would, in view of the multiplicity of changes in capital, have caused much injustice and many difficulties. For example, pre-war debts would have had to be paid in gold kronen, those of the first war year with 20 per cent. abatement, those of the second war year with 30 per cent. abatement, and so on.

The third current of opinion, to which I adhered, represented the plan of gradually raising the currency; the taking over by the State of the bank notes to their full amount; and the amortization of this State debt by means of a progressive property tax, so that people without means should contribute nothing, those with means progressively according to the amount of their property. This progressive rate was to be intensified by levying an increment tax on the growth of property, that is on the difference in value between the pre-war estate and that held at the 1st of March 1919, so as to hit the war profiteers.

This last current of opinion carried the day in the debate on the Law of the 25th of February 1919, but more especially on the Law of the 10th of April 1919. The new Czechoslovak krone was declared the equivalent of the Austro-Hungarian krone in payment of all obligations. This decision was of the utmost importance from the business point of view. The agitation in favour of the first or second current of opinion resulted in continuous disturbance, in abandonment of the krone and of money transactions, in fact, for the time being, in a wild rush to convert money into goods, whether movables, such as materials, furniture, jewellery, &c., or real property—land, houses, &c. On this account prices moved in sympathy to an extraordinary degree and the general dearness was increased. Thus the decision referred to above represented the achievement of a condition of tranquillity and security.

29. Austria, under pressure of the Czechoslovak Republic and

of Jugo-Slavia, had also decided to have the bank notes stamped, but proceeded in a different manner. It differentiated between claims originating prior to the 26th of February 1919, which were declared claims of old account, payable in unstamped bank notes, and claims originating after the 26th of February 1919 and payable in Austrian kronen. This distinction gave rise to great anomalies in Austria. For instance, a debt, subject to interest, contracted before the 26th of February 1919, was payable in unstamped kronen, but the interest due since that date was payable in Austrian kronen. With regard to international relations this decision involved heavy loss. An Austrian who had a claim in Czechoslovakia originating before the 26th of February 1919 would have received payment in Czechoslovak kronen, while on the other hand, a Czechoslovak would have received payment in unstamped kronen for a claim originating before the 26th of February 1919 and payable in Austria. The rate of exchange of these unstamped kronen was not fixed legally, and the rate of their realization was more or less subject to chance. Indeed, it was to be expected that they would disappear altogether from circulation as soon as stamping had been accomplished in all the Succession States. But till this should happen it was necessary to protect the citizens of Czechoslovakia from possible loss, and hence the Ordinance of the 1st of April 1919 was issued. This involved an act of retaliation in the sense that claims originating before the 26th of February 1919, whose beneficiaries were in the territory of former Austria-Hungary, outside the territory of the Republic, could not be paid in Czechoslovak kronen. There is not the faintest doubt that the mistaken Austrian decision referred to brought confusion into a clearly understood principle. Efforts were directed to removing this confusion by clearing, but so far the problem of these old accounts has not been solved. The provisions embodied in Section 6 of the Law of the 10th of April 1919 refer to this measure.

30. Another important provision embodied in Section 4 of this Law was to the effect that the State took over from the inhabitants the debt arising from bank notes of the Austro-

Hungarian Bank; became the sole creditor of the Bank; and at the same time assumed the position of debtor to the holders of the bank notes. In fact the bank-note debt became a State debt. In this way we dissociated ourselves from the proposals of those who aimed at repudiating the bank notes and leaving their owners to become creditors in bankruptcy of the Austro-Hungarian Bank. We knew well that by doing so we were taking over part of the war debt which the defunct State had contracted by means of the loans granted, contrary to its Articles, by the Bank of Issue. The difference was just this, that a single creditor—the Czechoslovak Republic—took the place of 13 million creditors, the possessors of the bank notes. This measure resulted in further tranquillizing the population by removing their apprehensions as to the total depreciation of the bank notes.

31. A third important provision is contained in Section 10 of the Law. It was necessary that the further issue of uncovered bank notes should be prevented. A limit to the State notes was fixed—a limit to the circulation covered only by the State. Additional bank notes could only be issued on the basis of cover by private legal liability and not under that of a State debt. This totality of State notes comprised:

1. Bank notes provided with stamps at the *original* stamping. In this way the bank notes withheld in connexion with the stamping were cut out; and no subsequent stamping was admissible. Hence when later on, after the Peace Conference, certain territories (Vitorázsko, Volčicko, Podkarpatská Rus) were taken over, no stamping was carried out there, but the bank notes circulating there were bought up at the prevailing rate of exchange—in the first two territories at the rate of the Austrian krone, in the last at the rate of the Hungarian krone. We had to guard against the possibility of bank notes of the Austro-Hungarian Bank, or Austrian and Hungarian notes, which we would have had to take over, finding their way into these territories. For, in view of the difference in quotation, we should have had to offer their possessors a premium at the expense of the State.

2. Bank notes issued up to half the amount of the current accounts and Treasury bills of the Austro-Hungarian Bank, taken over at the time of the stamping.

3. One- and two-kronen bank notes, circulating in the territory of the Czechoslovak Republic. These bank notes were subsequently exchanged for one- and two-kronen State notes less a tax of 10 per cent.

Whatever is issued in excess of this limit can only arise from banking business through discounting bills and other securities and loans on securities, and in all these transactions the creditor is not the State but an individual, a firm or other trading concern.

32. The fourth important provision is embodied in section 8, under which a State Bank of Issue was established in provisional form.

As a result of this legislative enactment, and in virtue of the Ordinance of the 12th of May 1919 (Coll. L. a. O., No. 246), a Banking Department was established at the Ministry of Finance and a Bank Committee of independent men appointed, to which the Minister of Finance transferred his statutory powers. Its relationship to the State was so defined that it is permissible for the Government, with the concurrence of the Bank Committee, to discount bills against customs duties, taxes and other considerations, provided they comply with the conditions fixed for discounting bills, i. e. are signed by two solvent merchants or firms ; and that payments may be made and received on behalf of the State, but with the proviso that at the close of each month the balance must be struck within a week. ' Every further direct or indirect grant of credit to the Government is inadmissible.'

The Banking Department took over the entire staff of officials of the Austro-Hungarian Bank ; leased from it the buildings of all the thirty branches ; and commenced forthwith its functions as a Bank of Issue. It carried through the exchange of bank notes for State notes, and it controls, separately, the bank notes withheld at the time of stamping, and also separately the stamped notes withdrawn, in so far as they are not sur-

rendered to the liquidators of the Austro-Hungarian Bank. The Banking Department issues exact statements on the 7th, 15th, 23rd, and last day of every month, showing under ' assets ' the claims against the Austro-Hungarian Bank which result from the bank notes exchanged for State notes, from the bank notes withheld at the time of stamping, and from the current accounts and Treasury bills; also, under ' liabilities ', the position of the 1 per cent. Loan of the bank notes withheld, and the circulation of State notes. Thus any one can calculate whether the total of the State notes in circulation is in accordance with the law of the 10th of April 1919.

III

THE METAL RESERVE PROJECT

33. The Government of the Czechoslovak Republic was not content with having separated its currency from that of the other States, but made preparations to place it on a gold basis and also to extinguish the unstamped State notes by means of the property tax. Simultaneously with the law relating to the stamping of bank notes, another was passed, on the 25th of February 1919, relating to an internal loan of gold and silver coins and foreign paper money. The terms on which the loan was issued were that these coins and other moneys should be deposited with the savings banks for a period of four years at 4 per cent. interest for account of the State. The depositor received a deposit book, the entry being expressed in the original currency deposited by him, and the State was under obligation to repay him the loan, after the lapse of four years, again in the original currency.

It was well known that during the war gold and silver coins had been hoarded by the population, and that, with the disuse of the krone, well-secured foreign bank notes were extensively bought. It was necessary to bring these collections made before and during the war into circulation and render them useful to the country's business system.

Arrangements were made in threefold fashion in order to meet differences in temperament.

Transactions in exchange and bills were not free in Austria and Hungary during the war. Every subject was obliged to surrender foreign moneys and bills to the Bill Office of the Austro-Hungarian Bank, and he was permitted in case of necessity to purchase foreign currency and bills only at this office. Every evasion of this ordinance was punishable, and the forfeiture of the money and bills was part of the penalty. This regulation was maintained in order to effect savings by means of foreign currency and claims on places abroad; in order to check their expenditure on superfluities and imported articles of luxury, and to conserve them for necessities; and to ensure as far as possible the equilibrium between imports and exports, and thereby the stability of the international quotation of the krone.

It was well known, however, that the Austrian regulations regarding bills were being evaded.

The Republic now required an improvement, and took steps in three ways to effect this.

1. Every citizen was called upon to offer his foreign money and bills to the Czechoslovak Bill Office for purchase at the current rate. Complying with this requirement, he could not be fined for any possible violation of the Austrian bill regulations.

2. Should he, however, not wish to part with such money and bills, he might lend them to the State on the terms of the currency loan sanctioned on the 25th of February 1919.

3. The Government provided accommodation and trained assistance for voluntary collections of gold and silver towards the metal reserve fund.

The Czech people has always relied on self-help in its battles. It had raised the money required for the erection of a national theatre by voluntary contributions, and when the theatre was burned down the requisite sum for rebuilding was collected a second time within two months. Constant collections were being made for schools which the Government declined to build for the Czech children living in German surroundings.

Collections were made for the funds for the support of those who had been deprived of their means of livelihood by the Germans; collections were made for Czech schools in Vienna, on behalf of the children of the 400,000 Czechs living there. And it was quite natural that immediately after the Revolution patriotic sacrifices should begin to be made to establish a metal reserve for the Republic.

The following were the results of these measures:

Of 1. Up to the end of October the turnover in the Bill Office amounted, in millions, to:

German Imperial marks	292·00
Swiss francs	30·00
French francs	28·50
Danish kroner	5·50
Norwegian kroner	0·65
Swedish kroner	3.50
American dollars	1·75
Italian lire	11·50
English pounds	2·50
Dutch gulden	3·50

In addition, the Government was able to exercise control over the exchange by the export of sugar, spirits, malt, and beer, since it exercised a practical monopoly of these important export products. The foreign exchange thus obtained was distributed to importers for the purchase, in the first instance, of raw materials (cotton, wool, Swedish iron ores, tin, sulphur, industrial fats, and so forth), or of partly finished goods (yarns, English steel, &c.); and only in the most extreme cases of necessity, for the purchase of finished goods, and always, in that event, for such as were not produced in the Republic (typesetters and printing machinery, watch-works, &c.). The effects of this policy will be discussed more fully in the chapter on the foreign exchange rate of the krone.

Of 2. The internal currency loan had certainly a very satisfactory result. The loans took the following form:

(*a*) Weight in fine gold of the gold coins and unwrought gold	3,640 kilo
(*b*) Weight in fine silver of the silver coins, 325,500 kilo, i.e. in terms of gold, in the ratio 1 : 30	10,850 ,,
Total in fine gold	14,490 ,,

Which in Swiss gold francs corresponds to a sum of . .	49,765,800 francs
The foreign bank notes presented, reckoned in the statutory peace terms, amounted to	8,786,322 ,,
So that the money loan in Swiss francs reached a total of, or the equivalent of, 11,494,536 gold dollars . . .	58,522,122 ,,

When we consider that this loan was issued in a time of insecurity, before the conclusion of peace, and that it was subscribed by people who had hoarded their coins during the war, we can appreciate the great confidence they reposed in the Government in its various ramifications.

The coins deposited were of the most varied description, including as they did ten-thaler pieces of Maria Theresa's time, Bokharan tillers, Papal lire, Mexican pesos, and Transvaal and Peruvian pounds. They included 20,384 dollars in gold, 355 in silver, and 997,243·60 in bank notes; £13,926 in English gold, £19 in silver, and £44,412 in notes.

Of 3. The popular enthusiasm for these collections was immense, but it was quite clear that the quantity of gold required to establish a gold currency was not to be found among the population. If the value of a milliard kronen had been required for our gold reserve, 305,000 kilograms of gold would have been necessary, as 3,278 kronen are minted from a kilogram of fine gold.

In the year 1913 gold coins equivalent to 225·6 million kronen and silver coins equivalent to 37·4 million kronen were in circulation throughout the whole Monarchy. There were also ducats in circulation as trade coins.

In the period 1868–1904 gold to the value of two hundred million kronen was worked up for industrial purposes. Further statistics cannot be furnished, as during this time gold coins were put in circulation and could have been used for industrial purposes. But the population was accustomed to paper money, and so the gold coins put in circulation returned to the bank. In the period 1903–13 inclusively the Austro-Hungarian Bank issued in Austria 10, 20, and 100 kronen pieces to the value of 1616·7 million kronen, and 1468·2 million were returned, so that 148·5 million remained in circulation. In Hungary 403·7 million kronen were circulated in the same period, and 483·2

million were returned (the Austro-Hungarian Bank in Budapest accepted Austrian gold coins too), so that with the addition of the balance from the previous years (1893–1903), 225·6 million kronen remained in circulation throughout the whole Monarchy, the proportion used industrially being unknown.

The contributions to this loan collection embraced gold and silver coins (127,500 gold kronen, 1,021,000 silver kronen), jewellery, gold watches (in number 3,312), silver, gold, and platinum articles, including, for example, 53 kilo of real gold lace from Austrian uniforms. From among the gifts, those which were of artistic, numismatic, or archaeological value were set aside and sold to museums. The precious and semi-precious stones of the jewellery were also sold.

The results of these collections were as follows : the weight in fine gold of the gifts of coin and jewellery was 268 kilo, equivalent in terms of peace-time exchange rates to 922,992 Swiss gold francs ; in fine silver in coin, jewellery, and plate, 3,000 kilo, i. e. in the ratio of 1 : 30, 100 kilo of fine gold, worth 344,400 Swiss gold francs ; in bank notes roughly 25,000 Swiss francs, and bank notes of the Austro-Hungarian Bank and Czechoslovak State notes to the value of 48,000 kronen.

These two schemes therefore yielded 14,859 kilo gold, i. e. 51,023,192 gold francs, and bank notes to the amount of 8,811,522 francs—a total of 59,834,714 francs, or 11,732,297 gold dollars.

34. As indicated above, it was indeed not possible to achieve a gold cover in this way. Even our own production of gold was not so large that we could have rapidly replaced what the Austro-Hungarian Bank had squandered during the war. The best-equipped mine of an English company at Roudné pod Bláníkem was again set working, and the gold produced by it was purchased out of the proceeds of the gifts of jewellery, the precious and semi-precious stones, curios, &c., and silver. Although the rest of the output at Roudné was purchased too, yet as a portion of it had to be placed at the disposal of the goldsmith, chemical, glass, and porcelain industries, and the dental profession, not much remained for the particular purposes of the Banking Department. The output at Roudné

amounted to 250 kilo yearly. Attempts were made at boring in the old deserted mine-works where granite and gneiss meet, but such operations are very laborious, and progress but slowly. Yet in many places, to mention only Jílové, Kasejovice, and Kašperské Hory, the results so far are very promising, roughly 50 kilo being got yearly.

I considered it necessary, therefore, to obtain the authority of the National Assembly for seeking a gold loan of 100 million dollars in America, and the Government obtained this authority by the law of the 10th of April 1919 (Coll. L. a. O., No. 186). Although the proceeds of this loan were to have remained in America as a State debt, we did not obtain the loan in consequence of the uncertainty of the peace negotiations and the feeling of insecurity evoked by Bolshevism in Russia.

Consequently our endeavours to effect a definite regulation of the currency standard had to be postponed. None the less we worked away energetically in order to secure, even if only gradually, a paper currency established on a sound basis.

IV

THE PROPERTY TAX

35. The property tax is intended to be the means of absorbing the uncovered State notes, and even at the time of the stamping the necessary preparations were taken in hand for giving effect to this intention. The amount of the bank notes withheld forms a reliable guide to the number of bank notes in the possession of each person on the 1st of March 1919. Moreover, the recording of the deposits was carried out by the financial houses, and this under the penalty that deposits not notified should be forfeited to the State. This condition was imposed as deposits entered in the deposit books need not necessarily be made in a person's own name, but may be made under an assumed name, and it was essential to determine to whom they belonged. At the same time an embargo was placed on 50 per cent. of the deposits, partly to save the financial houses from difficulties owing to withdrawals after the stamping, and also to serve as guarantee for the property tax. This embargo

was subsequently reduced to 20 per cent. when the danger from withdrawals had disappeared.

The recording of securities was also carried out, these as well as bonds and dividend warrants being stamped.

Further, all claims had to be registered, likewise under penalty that those not notified should be forfeit to the State. In the case of suits arising out of claims originating before the 1st of March 1919, courts of law are obliged to require proof that claims have been properly notified, and in the event of this not being forthcoming to dismiss the suit and report the matter to the Treasury, to enable the latter to intervene.

The registration embraced goods, stores, policies, fittings, mortgage claims, and real estate.

The preparations were completed by the end of August 1919, when comparison of the records took place and the results were compiled for the drafting of the property tax law. The law was passed on the 8th of April 1920, and published as No. 309 in the Collection of Laws and Ordinances. Its first section defines the object of the property tax in the following terms :

' The property tax and property increment tax which come into force in virtue of the enactments of this law are to be devoted in the first instance, as a condition precedent to the future regulation of the currency, to the extinction of the obligations assumed towards the Austro-Hungarian Bank by the exchange of the bank notes withdrawn against State notes, by the withholding of bank notes and taking over of current accounts and Treasury bills, in conformity with the laws of the 25th of February 1919 (Coll. L. a. O., No. 84) and of the 10th of April 1919 (Coll. L. a. O., No. 187).

' The surplus shall be utilized for covering the most pressing burdens of the Czechoslovak State arising from the assertion and establishment of its independence, exclusive, however, of the current deficits in the State budget. The particular purposes within the scope of this proviso to which the surplus may be devoted shall form the subject of separate legislation.

' The Finance Department shall administer the proceeds of the tax separately from the other revenue of the State, both in accounting and banking.

'The Controller and Accountant General shall, within the scope of his authority, in accordance with the law of the 20th of March 1919 (Coll. L. a. O., No. 175), supervise the exact fulfilment of the provisions contained in this section, and shall within six months at latest after the lapse of every half-year submit to a Special Commission of the Národní Shromáždění (National Assembly) in prescribed form a report regarding the proceeds of the tax, the method of its expenditure and any other eventual dispositions, together with a suitable recommendation; this Commission shall lay its report with recommendations before both Houses; and its report shall be published in the Official Gazette.

'The House of Representatives shall appoint sixteen and the Senate eight of its members to the Commission of the Národní Shromáždění; the Commission shall elect a Chairman and decide on its rules of procedure. The first meeting of the Commission shall be called by the President of the House of Representatives.'

Payments of property tax are made by means of special deposit certificates of the Post Office Savings Bank entered on a special account, which the Banking Department shall control by withdrawing an amount of State notes from circulation equivalent to the amount of the payments made. Exempt from property tax are sovereigns of other countries, foreign diplomatic representatives and their foreign staff, in so far as their property does not consist of inland movable property, undertakings carried on for profit, or mortgage claims. Exempt are also individuals entitled to exemption under treaties; and property permanently, exclusively, and directly devoted to and actually used for religious, public, charitable, educational, or social purposes; and lastly property up to 10,000 kč. The date fixed for the assessment of property was the 1st of March 1919.

The subject of the property tax is the sum total of property and proprietary rights after deduction of obligations calculable in money.

Excluded are: household furniture, dwelling-house fixtures, clothing, and other objects intended for personal use and not for profit-making, pensions and maintenance allowances, and

claims not yet due on life insurances where the prospective payment is a capital sum under 4,000 kč. or a yearly income under 400 kč.

For purposes of valuation the current (sale) price is the standard of assessment. The property return is made according to the condition of the property on the 1st of January 1914 and the 1st of March 1919.

Companies and corporate bodies are assessed only on the value at the latter date. In other cases the increment, i. e. the increased value of the property between the 1st of January 1914 and the 1st of March 1919, is taxed. The property tax and property increment tax are progressive.

As regards the increment tax, the amount of the percentage levied depends upon whether the property was large or small in the year 1914. The smaller the property in the year 1914 and the larger it was on the 1st of March 1919, so much the higher is the percentage of the increment tax.

If on the 1st of March 1919 a person had property amounting to 25,000 kr., and he had none on the 1st of January 1914, he paid in property tax at 1 per cent., 250 kr.; in increment tax at 16 per cent., 4,000 kr.; total, 4,250 kr. If a person had on the 1st of January 1914, 900,000 kr., and on the 1st of March 1919, 925,000 kr., i. e. an increase of 25,000 kr., he paid in property tax, 77,000 kr.; in increment tax, 7·1 per cent. of 25,000 kr., 1,775 kr.; total, 78,775 kr. So that the former paid on his 25,000 kr. 17 per cent.; the latter on his 925,000 kr. 8·65 per cent., because the former acquired his property during the war, while the latter only maintained his pre-war property.

But if he had acquired the 900,000 kr. during the war and his pre-war property had amounted to 25,000 kr., he paid on this property

	kr.
In Property Tax	77,000
In Increment Tax	212,650
i. e. a total of	289,650

Or roughly 32 per cent.

The accompanying table shows clearly the rate of progression both of the property tax and of the property increment tax.

The Tax		*Amount of the Increment Tax on Property originally valued at :*												
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Percentage of Property.	*From Increased Property or Increment.*	*From 0 to 500 kč.*	*From 500 to 25,000 kč.*	*From 25,000 to 100,000 kč.*	*From 100,000 to 400,000 kč.*	*From 400,000 to 900,000 kč.*	*From 900,000 to 1,600,000 kč.*	*From 1,600,000 to 2,500,000 kč.*	*From 2,500,000 to 3,600,000 kč.*	*From 3,600,000 to 4,900,000 kč.*	*From 4,900,000 to 6,400,000 kč.*	*From 6,400,000 to 8,100,000 kč.*	*From 8,100,000 to 10,000,000 kč.*	*Over 10,000,000 kč.*
%		%	%	%	%	%	%	%	%	%	%	%	%	%
1·0	On the first 25,000	16·0	14·4	12·7	10·8	8·6	7·1	6·2	5·7	5·5	5·3	5·1	5·0	5·0
3·0	On the next 75,000	18·0	17·4	16·2	14·6	12·7	10·9	9·7	9·0	8·7	8·4	8·2	8·1	8·0
6·5	,, 300,000	22·0	21·7	21·3	20·1	18·1	16·1	14·7	13·8	13·3	12·9	12·7	12·6	12·5
11·0	,, 500,000	27·0	26·9	26·6	25·5	23·9	21·9	20·1	18·9	18·3	17·9	17·7	17·6	17·5
15·5	,, 700,000	31·0	30·9	30·8	30·2	29·1	27·5	25·8	24·3	23·3	22·9	22·7	22·6	22·5
19·5	,, 900,000	34·0	33·9	33·8	33·6	33·1	32·2	30·9	29·5	28·4	27·9	27·7	27·6	27·5
23·0	,, 1,100,000	36·0	35·9	35·9	35·8	35·5	35·0	34·3	33·5	32·6	32·0	31·7	31·6	31·5
26·0	,, 1,300,000	37·0	37·0	36·9	36·9	36·8	36·6	36·2	35·7	35·2	34·8	34·6	34·5	34·5
28·0	,, 1,500,000	38·0	38·0	37·9	37·9	37·8	37·7	37·6	37·4	37·1	36·8	36·6	36·5	36·5
29·0	,, 1,700,000	39·0	39·0	38·9	38·9	38·8	38·7	38·6	38·6	38·4	38·2	38·1	38·0	38·0
29·5	,, 1,900,000	39·5	39·5	39·5	39·5	39·4	39·4	39·4	39·3	39·2	39·2	39·1	39·0	39·0
30·0	Over 10,000,000	40·0	40·0	40·0	40·0	40·0	40·0	40·0	40·0	40·0	40·0	40·0	40·0	40·0

The tax is assessed on the head of the family in respect of the total amount of his property and the property of all members of the family living with him. This system was adopted because the personal income tax is assessed in the same way, and because the nature of this tax affords a check on the property returned for the years 1914 and 1919.

36. Companies and corporate bodies are subject to property tax only, not to property increment tax.

By ' companies ' are understood such concerns as are subject to the obligation of publishing a balance-sheet (joint-stock companies, sleeping-partner concerns, syndicates, limited companies), but not private trading concerns, which are taxed like individuals.

Corporate bodies consist of public and private corporations, public foundations and institutions, churches, orders, congregations, religious societies and civic associations licensed to brew.

Exempt from the tax are: the Government, the country, the regions (' Gaue '), and communes, in so far as they do not own privately-managed undertakings (e. g. breweries, savings banks, authorized insurance societies, class associations, chambers of commerce and agricultural councils).

The property of these companies is determined by drawing up a liquidation balance-sheet, i. e. a statement of the eventual position of the property if the concern were wound up.

The property of joint-stock companies, for instance, consists of

1. The share capital.
2. The reserve fund.
3. The liquidation balance, which is so adjusted that the three component parts of the property are equivalent to the total selling value of the undertaking. By estimating the value of the machinery, the selling price of the stock on hand on the 1st of March 1919, the fixtures, the outstanding claims, &c., a definite figure is arrived at. This is compared with the price obtainable for the undertaking as a whole. If this price is higher than the total of the component parts given under

headings 1 to 3 above, this higher price is adopted; if it is lower, the lower price is accepted.

The scale is as follows:

On the first	200,000 kč.	3 per cent.
On the next	800,000 „	5 „
„ „	3,000,000 „	9 „
„ „	8,000,000 „	13 „
„ „	15,000,000 „	17 „
„ „	25,000,000 „	19 „
„ property over	50,000,000 „	20 „

According to this scale a company with property of 51 million kč pays

On	200,000 kč. . .	3 per cent.	=	6,000 kč.
	800,000 „ . .	5 „	=	40,000 „
	3,000,000 „ . .	9 „	=	270,000 „
	8,000,000 „ . .	13 „	=	1,040,000 „
	15,000,000 „ . .	17 „	=	2,550,000 „
	23,000,000 „ . .	19 „	=	4,370,000 „
	1,000,000 „ . .	20 „	=	200,000 „
	Total			8,476,000 „ i. e. 16·6 per cent.

The property tax may be paid by individuals and corporate bodies in ready money by means of the deposit certificates issued against the bank notes withheld; by balances of the current accounts and Treasury bills of the Austro-Hungarian Bank placed under embargo; by deposits under embargo; by payments of insurance money placed under embargo at the property census; by trustee securities with the exception of the bonds of the former Austro-Hungarian Government; and by sequestrated real estate. At the same time steps were taken to ensure that the sums under embargo should be released after payment of the tax.

Fifteen per cent. of the property tax is due within thirty days after issue of the demand notes, a sixth of the balance within four months, and thereafter a sixth every six months, so that the tax shall be discharged within three years. The Minister of Finance may prolong the period of payment to five years in special cases. If the 15 per cent. initial payment and the first of the instalments are paid in cash, they are reckoned at 5 per cent. higher. The tax may also be paid before receipt

of the demand note. If paid before it is due, 10 per cent. interest from the date of payment to the date when due is allowed. All these enactments are directed to secure the payment of the tax and the disappearance of inflation within the shortest possible time.

37. The aim of the Republic in adopting these measures affecting the currency is to heal the injuries inflicted by the burden of bank notes. But these steps alone will not suffice, as the money standard can be raised only by thrift and by increased production.

What has been accomplished in these respects, as also the exertions made to secure a budget balance and to meet expenditure by means of taxation instead of loans, will be discussed in a separate chapter.

But in this connexion we must give an account of how the Peace Conference dealt with the question of regulating the Austro-Hungarian currency, and of the practical results produced by the Government measures already referred to.

V

THE PEACE TREATY AND THE CURRENCY

38. The Peace Treaty signed at Saint-Germain-en-Laye on the 10th of September 1919, and ratified by the Powers and Czechoslovakia in the course of the months of October and November 1919, contains in Articles 206 and 207 the following provisions :

Article 206

1. Within two months of the coming into force of the present Treaty, each one of the States to which territory of the former Austro-Hungarian Monarchy is transferred, and each one of the States arising from the dismemberment of that Monarchy, including Austria and the present Hungary, shall, if it has not already done so, stamp with the stamp of its own Government the currency notes of the Austro-Hungarian Bank existing in its territory.

2. Within twelve months of the coming into force of the present Treaty, each one of the States to which territory of the former Austro-Hungarian Monarchy is transferred, and each one of the States arising

from the dismemberment of that Monarchy, including Austria and the present Hungary, shall replace, as it may think fit, the stamped notes referred to above by its own or a new currency.

3. The Governments of such States as have already converted the currency notes of the Austro-Hungarian Bank by stamping or by the issue of their own or a new currency, and in carrying out this operation have withdrawn, without stamping them, a portion or all of the currency notes circulating in their territory, shall either stamp the notes so withdrawn or hold them at the disposal of the Reparation Commission.

4. Within fourteen months of the coming into force of the present Treaty, those Governments which have replaced notes of the Bank by their own or new currency, in accordance with the provisions of this Article, shall transfer to the Reparation Commission all the notes, stamped or unstamped, of the Bank which have been withdrawn in the course of this replacement.

5. All notes transferred to the Reparation Commission under the provisions of this Article shall be dealt with by that Commission in accordance with the provisions of the Annex hereto.

6. The Austro-Hungarian Bank shall be liquidated as from the day succeeding the day of the signature of this Treaty.

7. The liquidation shall be conducted by receivers specially appointed for that purpose by the Reparation Commission. In conducting the liquidation of the Bank, the receivers shall follow the rules laid down in the statutes or other valid instruments regulating the constitution of the Bank, subject, however, to the special provisions of this Article. In the case of any doubt arising as to the interpretation of the rules concerning the liquidation of the Bank, whether laid down in these Articles and Annexes or in the statutes of the Bank, the decision of the Reparation Commission or any arbitrator appointed by it for that purpose shall be final.

8. The currency notes issued by the Bank subsequent to the 27th of October 1918 shall have a claim on the securities issued by the Austrian and Hungarian Governments, both former and existing, and deposited with the Bank by those Governments as security for these notes, but they shall not have a claim on any other assets of the Bank.

9. The currency notes issued by the Bank on or prior to the 27th of October 1918, in so far as they are entitled to rank at all in conformity with this Article, shall all rank equally as claims against all the assets of the Bank other than the Austrian and Hungarian Government securities deposited as security for the various note issues.

10. The securities deposited by the Austrian and Hungarian Governments, both former and existing, with the Bank as security for the currency notes issued on or prior to the 27th of October 1918 shall be cancelled in so far as they represent the notes converted in the territory

of the former Austro-Hungarian Monarchy as it existed on the 28th of July 1914 by States to which territory of that Monarchy is transferred or by States arising from the dismemberment of that Monarchy, including Austria and the present Hungary.

11. The remainder of the securities deposited by the Austrian and Hungarian Governments, both former and existing, with the Bank as security for the currency notes issued on or prior to the 27th of October 1918 shall be retained in force as security for, and in so far as they represent, the notes issued on or prior to the 27th of October 1918, which on the 15th of June 1919 were outside the limits of the former Austro-Hungarian Monarchy as it existed on the 28th of July 1914, that is to say, firstly, all notes of this description which are presented to the Reparation Commission in accordance with paragraph 4 of this Article, and secondly all notes of this description which may be held elsewhere and are presented to the receivers of the Bank in accordance with the Annex hereto.

12. No claims on account of any other currency notes issued on or prior to the 27th of October 1918 shall rank either against the general assets of the Bank or against the securities deposited by the Austrian and Hungarian Governments, both former and existing, as security for the notes, and any balance of such securities remaining after the amount of securities mentioned in paragraphs 10 and 11 has been calculated and deducted shall be cancelled.

13. All securities deposited by the Austrian and Hungarian Governments, both former and existing, with the Bank as security for currency note issues and which are maintained in force shall be the obligations respectively of the Governments of Austria and the present Hungary only and not of any other States.

14. The holders of currency notes of the Austro-Hungarian Bank shall have no recourse against the Governments of Austria or the present Hungary or any other Government in respect of any loss which they may suffer as the result of the liquidation of the Bank.

Annex

1

The respective Governments, when transmitting to the Reparation Commission all the currency notes of the Austro-Hungarian Bank withdrawn by them from circulation in accordance with the terms of Article 206, shall also deliver to the Commission all the records showing the nature and amounts of the conversions which they have effected.

2

The Reparation Commission, after examining the records, shall deliver to the said Governments separate certificates stating the

total amount of currency notes which the Governments have converted :

(*a*) Within the limits of the former Austro-Hungarian Monarchy as it existed on the 28th of July 1914.

(*b*) Elsewhere.

These certificates will entitle the bearer to lodge a claim with the receivers of the Bank for currency notes thus converted which are entitled to share in the assets of the Bank.

3

After the liquidation of the Bank is completed the Reparation Commission shall destroy the notes thus withdrawn.

4

No notes issued on or prior to the 27th of October 1918, wherever they may be held, will rank as claims against the bank unless they are presented through the Government of the country in which they are held.

ARTICLE 207

Each one of the States to which territory of the former Austro-Hungarian Monarchy is transferred, and each one of the States arising from the dismemberment of that Monarchy, including Austria, shall deal as it thinks fit with the petty or token coinage of the former Austro-Hungarian Monarchy existing in its territory.

No such State shall have any recourse, under any circumstances, on behalf either of itself or of its nationals, against any other State with regard to such petty or token coinage.

These provisions of the Peace Treaty harmonize with what had already been accomplished by us in March. Stamping receives recognition, and the territorial principle adopted by us, i. e. the stamping of the bank notes circulating within a particular territory, is prescribed. So we did not require to make any changes. The exchange, prescribed in paragraph 2, had likewise been carried through by us, and all bank notes withdrawn by us are ready for handing over to the Reparation Commission.

39. The Austro-Hungarian Bank had a charter valid till the 31st of December 1919, and it went into liquidation on that date. The liquidators had not, it is true, been appointed at that time, but the then existing balance-sheet is the basis for liquidation.

This balance-sheet shows the following bank note circulation, including the notes withdrawn by us:

		54,464·0	million kr.
Current accounts		5,723·0	,,
Current accounts and Treasury bills taken over at the Prague Banking Department		2,085·0	,,
Treasury bills drawn 'at sight'		3·7	,,
Treasury-bill circulation		837·2	,,
The possible bank-note circulation accordingly was		63,112·9	,,
The same on 28th of October 1918		35,328·7	,,
The increase was therefore		27,784·2	,,
Of this had been printed:			
For Austria	5,117 million kr.		
For Hungary	5,385 ,,	10,502	,,
Balance		17,282·2	,,
There had been printed for the former Austrian State	6,000 million kr.		
For former Hungarian State	4,000 ,,	10,000	,,
The balance		7,282·2	,,

had arisen through the increase of advances made on war loan.

The cover for this large circulation is insignificant.

Since the 28th of February 1919 the gold reserve had decreased by 39,373 million kronen, so that it amounted to

	222,661,715·48	kr.
The gold bills had diminished by 9·5 million kr. to	7,923,305·35	,,
Silver had increased inappreciably to	57,053,371·07	,,
So that the metal remaining amounted to	287,638,391·90	,,

The bill total shows the huge figure of 1,149,764,383·47 kronen, but of this only 9 million kronen are commercial bills, the remainder being State debt. The loans on securities had reached 9,045 million kronen, but of this figure 90 per cent. is on war loan, so that from the commercial point of view, only 900 million kronen can be regarded as covered. The soundness of these loans may be gauged from the fact that the unpaid interest amounts to 150 million kronen.

The buildings and fixtures in pre-war value represented 51 million kronen,

The premium account of the currency reserve	478 million kr.
Reserve funds	40 „
Undistributed revenue, 1919	62 „
War losses reserve	20 „

so that the tangible property, exclusive of the 210 million kronen share capital, amounts to roughly 1,850 million kronen, or, including the share capital, 2,060 million kronen.

40. The Peace Treaty made no pronouncement regarding the current accounts and Treasury bills. The States were not under obligation to take over these items and convert them into State notes. The Czechoslovak Republic had, as mentioned, taken over both. As soon as the liquidators appointed by the Reparations Commission had commenced the liquidation, they encountered the following difficulty. These debts must be paid by notes and in no other way, so that the Bank ought to have delivered to these creditors bank notes, which, however, being in liquidation, it did not dare to issue. Even had the Bank issued them, however, the States were not bound to recognize them, and could not have declared them State notes because they were not in circulation within their territory in the appointed time.

The solution which the Czechoslovak Republic had voluntarily adopted was recommended to all the States, and by no less a person than the chairman of the liquidators, Mr. Whitman, an American, who wished to carry through the liquidation rapidly and effectively; and consequently in special conferences, held with all the participating States at the end of December 1920 and in the beginning of the year 1921, he induced them to agree to this means of removing the difficulties arising from the wording of Article 206. But as the Reparation Commission in Paris did not approve this recommendation he resigned his position as liquidator, to the detriment of the whole affair.

41. Irrespective of this question, the greatest difficulty was found in dividing the bank notes in circulation into those which were issued before and those which were issued on and after the 28th of October 1918. The object of the decision on this point

was clear. For the notes issued before the 28th of October 1918, the former Monarchy and the Succession States are security to the Bank. For those issued since that date, in so far as they were issued at the request of Austria and Hungary as now constituted, these two States are security, since the other States had not given currency to those bank notes, and indeed had actually protested against their issue.

No doubt the framer of this provision had the method of issue of the Bank of England in mind, according to which every bank note is dated with the day of issue and on its return is withdrawn from circulation. But in other countries the practice is different, and bank notes returned to the bank are put into circulation afresh. Thus when the notes issued before the 28th of October were worn out, they would be replaced by fresh notes. This consideration appealed specially to those countries which had been late in stamping.

The Czechoslovak Republic had an advantage in this respect, having early carried out the stamping and the exchange of bank notes for State notes, so that it could accurately determine by their series the bank notes issued after the 28th of October 1918. Moreover, it had preserved them all, while the new State of Austria, after withdrawing the old notes of the Austro-Hungarian Bank and exchanging them for its own notes, had allowed all the old ones to be destroyed. It was thus quite unable to discriminate between the two issues.

Accordingly, the Czechoslovak Republic proposed that of the body of notes issued before the 28th of October 1918, 500 kronen *per capita* should be reckoned against the population. Under this scheme, the notes in its own holding issued before the 28th of October 1918 would have amounted to 6,750 million kronen, those issued after that date to 1,536 million kronen, assuredly a much higher amount than the increase at the time of stamping would have represented. By this 500 kronen *per capita* arrangement, of the 30,000 million kronen in circulation at that time 26,000 million would have fallen to the territory of Austria-Hungary, and the remaining 4,000 million kronen to the circulation outside her frontiers.

This proposal has not so far been accepted, and the question still awaits solution.

Agreement was only reached on the question of the Bank's buildings, which have been assigned to the Czechoslovak Republic at their value in gold kronen in the balance-sheet in payment of the bank notes issued before the 28th of October 1918.

A settlement was also arrived at as regards the gold debt to Holland and Switzerland, and meanwhile 15·3 million kronen from the gold reserve were handed over to the Czechoslovak Republic on account.[1]

[1] By an agreement arrived at on the 14th of March 1922 a key was concerted for the notes issued before the 28th of October 1918, which is a combination of the number of the population and the number of notes actually collected and exchanged.

According to this key, there were notified by:

Austria	7·428 milliards,	of which were acknowledged as issued before Oct. 28th	4
Hungary	8·5 „		4
Italy	3·5 „		2·5
Poland	2·739 „		2·15
Rumania	8·717 „		6·1
Yugo-Slavia	5·686 „		4·27
Czechoslovakia	8·357 „		6·1
	44·927		29·12

This key governs the distribution of all the assets of the liquidation estate, and the question of the number of currency notes would appear to have been solved.

With respect to notes issued after the 27th of October 1918, Austria and Hungary had undertaken to deliver to the other States the securities by which the issue of such notes had been covered.

In this matter an agreement was reached, in virtue of which the two States were to hand over to the other States, out of the share of assets assignable to them according to the above key, 5 million gold kronen, to be divided among those States in proportion to the amount of notes issued after the 27th of October 1918 and to the bank liabilities undertaken (current accounts, Treasury bills). On this basis Czechoslovakia should receive 2,094,000 gold kronen. The sum total of our share in the assets of the Bank should amount to about 50 million gold kronen. Towards that sum Czechoslovakia received an instalment of 15·3 million gold kronen, and the buildings of the branch offices, worth 6,459,970 gold kronen (the estimated value of the Prague building remaining reserved). The balance has not yet been paid, Austria having so far failed to ratify the covenant, so that the liquidation cannot be completed.

The question of the pensioners of the Austro-Hungarian Bank was solved by each State adopting those who, on the 1st of June 1921, were its citizens (about 85 in our case) and providing for the pensions of those so adopted. The pension fund, amounting to 196·5 million kronen, is to be divided in proportion to the burden

VI

THE INTERNATIONAL EXCHANGE RATE OF THE KRONE

42. The separation from the Austro-Hungarian standard resulted in the Czech krone and bills on Prague being quoted independently on the European Stock Exchanges; and from this time onward Czechoslovak business life found expression on the international market.

There could be no doubt that the Czechoslovak currency was in an unhealthy condition, and that its improvement could only be brought about by strict maintenance of internal order; by the exercise of economy in the State expenditure, without disproportionate growth in the incomes of the people; by raising the productive capacity of the nation; and by placing a restriction on all unnecessary consumption, and especially on the importation of superfluous articles of luxury from abroad.

It was of the first importance that our production should exceed our consumption in order that we should be in a position to use the surplus for purchasing raw materials and other necessaries abroad; that we should do business with foreign media of payment judiciously and endeavour to maintain a trade and payment balance.

This was certainly a gigantic task in a country which had been robbed, owing to the blockade, of all means of maintaining the fertility of the soil—there was no artificial manure, the stock of cattle had been reduced to a third of its pre-war proportions, there were no teams for the proper working of the land, &c.;—where industry had been undermined—all copper and brass parts having been removed for the production of

accepted, by means of a distribution in kind of the securities. For the purpose of liquidating the mortgage department, the claims are to be revived and paid up in Austrian kronen; the debentures are to be paid up in Austrian kronen. There are claims in Hungary to the amount of 95 millions; in Poland, of 25 millions; in Yugo-Slavia, of 18·5 millions; in Czechoslovakia (mostly in Slovakia), of 16 millions; in Austria, of 3·1 millions; and in Italy, of 0·184 million. The shareholders are to be given, voluntarily, the buildings of the Austrian provincial branch offices, the building No. 3 Bankgasse and the printing-house, so that about 1 per cent. to 12 per cent. in gold would be refunded to them.

munitions—and all industrial activity diverted to the output of munitions, lead requisitioned for rifle ammunition, steel for the casting of guns, wood for the trenches ; where the execution of safety work in the coal mines had been stopped, and only the wasteful process of rough hewing was carried on. In every sphere of economic life the war had made itself at home with devastating effect.

43. The memory of the generous activity of the United States of America will always be preserved in the history of the young Czechoslovak State with gratitude for the help given to the Republic, under the guidance of Mr. Hoover, by supplying it on credit with grain, flour, and fats to the value of 51 million dollars.

This liberal assistance on the part of the North American Republic not only saved hundreds of thousands of human beings from death and from the illnesses resulting from under-nutrition, but also afforded the Czechoslovak Republic the chance of pulling itself together financially.

44. The Government of the Republic, on its part, not only cherished feelings of gratitude towards its benefactors, but felt bound to make the very best use of the benefits conferred and to prove that it would spare no sacrifice by efforts of its own to free itself from the misery attendant on the war.

The Government assumed entire control of exports and imports. Nothing might be imported without a licence, and the Government granted no permits for articles of luxury, such as silk-stuffs, ornamental feathers, furs, tropical fruits, oranges, spices, and liqueurs ; refused passports for pleasure trips abroad ; and felt bound, while importing American flour on credit, to inculcate thrift on its citizens and to check the craving for enjoyment. With this object it restricted the business of hotels and inns by enacting that they might only remain open to ten and eleven o'clock. Not even for entertainments were exemptions from this rule granted.

I always was, and am still, of the opinion that only Republican and Puritan simplicity can extricate the nations of Europe from the misfortunes arising from the war.

45. As regards exporting, it was the duty of every exporter

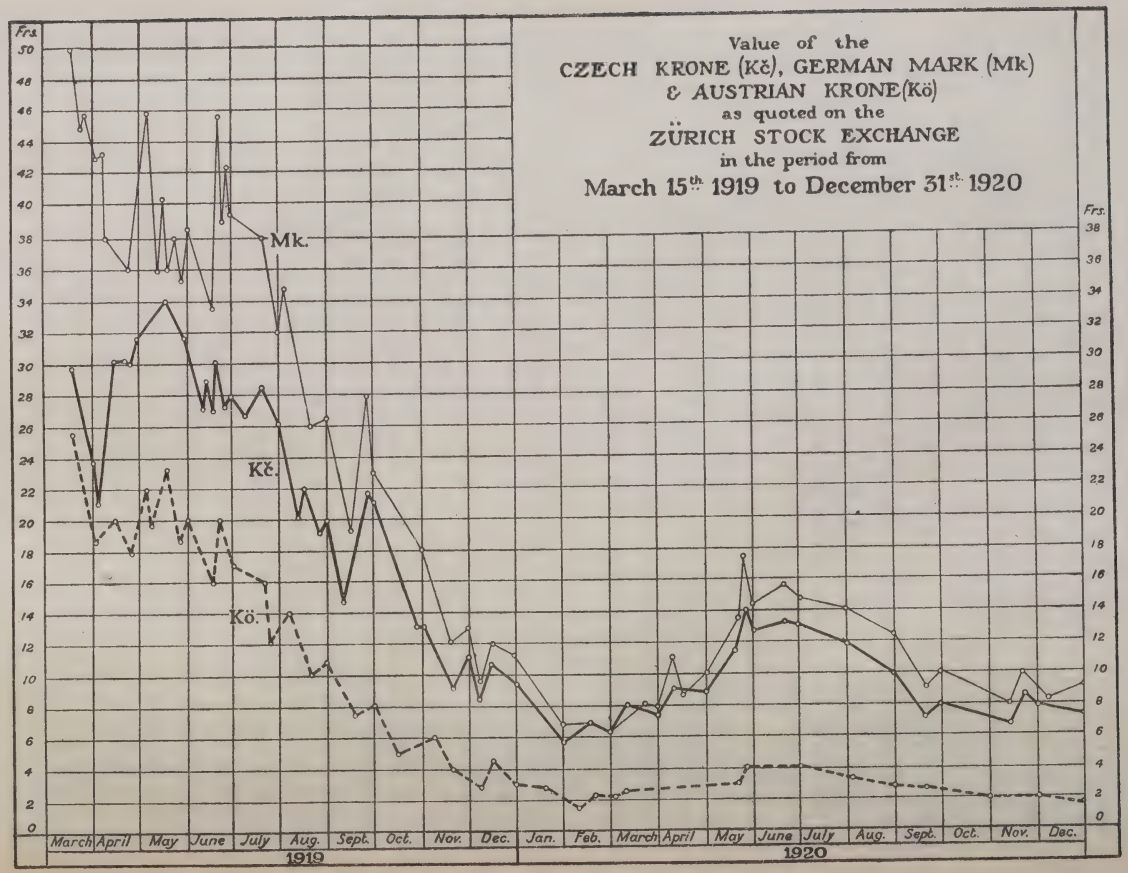
to hand over his foreign money and bills to the Government at their daily quotation, and accordingly every exporter had to obtain the requisite Government sanction for his transactions. The foreign currency and bills accruing thus the Government distributed through its bill office to importers to enable them to pay for the goods they were to import, a distinction being made between articles absolutely necessary and those so in a less degree.

During the term of office of the first Government a veto was placed on both exporting and importing against Czechoslovak kronen, except with the special permission of the Minister of Finance. This measure was adopted, because otherwise the supply of currencies of high exchange value would not have sufficed, had exports been made against kronen, and because the kronen claims from abroad would have accumulated if importing against kronen had been permitted, resulting, as it would have, in a serious disturbance of the krone.

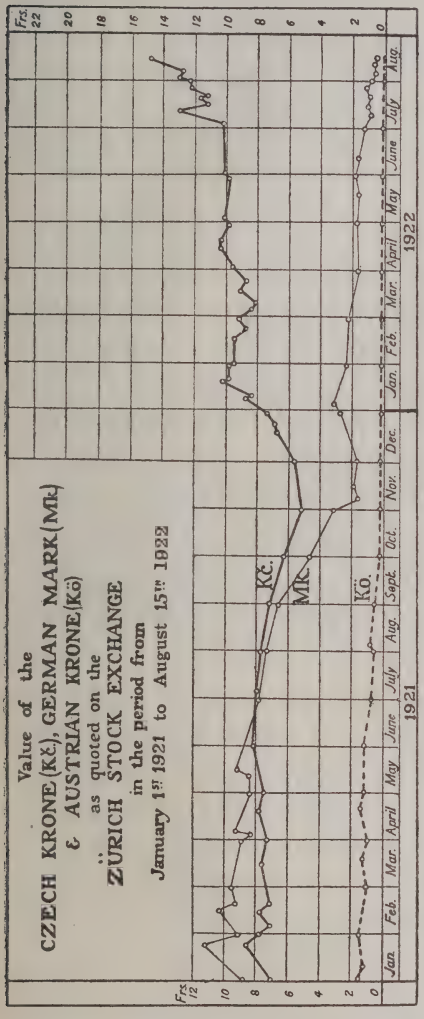
Apart from this, no interference with exporting took place except in order to secure direct exportation to countries with high rates of exchange, instead of through the hands of the Vienna and German re-exporters. This procedure was dictated not only by the fact that the Czechoslovak exporter was to be compelled to abandon the stereotyped lines through Vienna and Berlin in favour of independent paths of his own seeking, but also through regard for the Stock Exchange quotations, which habitually registered a fall in the mark and the Austrian krone.

The more closely we remained connected with Germany and Austria the more dependent the Czechoslovak krone became on the mark and the Austrian krone, which were bound to fall in value under constant pressure of uncovered bank notes and the deficits in the national budgets. This system of independent export met with success in the case of sugar, hops, malt, glass of all kinds, wood and wooden wares, which were consigned direct to the country of consumption.

46. On the Zürich Stock Exchange the quotation of the Czech krone and bills on Prague, of the mark and bills on Berlin, of the Austrian krone and bills on Vienna, was approximately as follows :


Value of the
CZECH KRONE (Kč), GERMAN MARK (Mk)
& AUSTRIAN KRONE (Kö)
as quoted on the
ZÜRICH STOCK EXCHANGE
in the period from
March 15th 1919 to December 31st 1920
Frs.
Mk.
Kč.
Kö.
March April May June July Aug. Sept. Oct. Nov. Dec.
1919
Jan. Feb. March April May June July Aug. Sept. Oct. Nov. Dec.
1920

It will be seen from these quotations that from the 29th of February to the 17th of May 1919 the mark fell from 52 Swiss francs (for 100 marks) to 36 Swiss francs, the Austrian krone from 25·50 to 23, while, on the other hand, the Czechoslovak krone rose from 26 to 33·50, and remained at about 30 francs (100 kč.) up to the 23rd of July, in spite of the fact that in June the Republic had had to deal with the Hungarian Bolshevist incursion. But from this time onward it fell steadily, in complete dependence on the decline of the mark and the Austrian krone till, on the 2nd of February 1920, it reached 5·65 francs; at Vienna 2·40, and at Berlin 6·55.



If we consider the reason for this *débâcle* and the causes of the interdependence of the Czech krone and the mark, we are confronted with the following facts:

(*a*) After the first half of July 1919 a material improvement took place in the trade balance of the Republic, because the United States had ceased to afford assistance by means of corn and flour imported on credit, a fact which of course brought the Republic face to face with the problem how to supplement its harvest in the following year by foreign imports. Two mistakes were then made. In previous sales of American flour

and fats the dollar was reckoned at 20 kč.—corresponding to a rate of 25·25 francs to 100 kč.—but in July a drop set in to the price of home flour, which was 40 per cent. cheaper, because the farmers were compelled to deliver corn to the State Grain Department at a price fixed below that of the world markets. Although this regulation had no direct financial consequences in connexion with the sale of American flour on long credit terms, yet it introduced a method of selling which necessarily involved heavy losses in the case of ready money purchases of flour and wheat.

The second mistake was this. Immediately before the harvest the Government commenced spasmodically to purchase foreign wheat at high prices and to increase the prices paid to the farmers for corn of the new harvest, without at the same time increasing the price of the flour it sold, so that it had to pay a premium both on the price of the foreign imported flour and also on that of home flour.

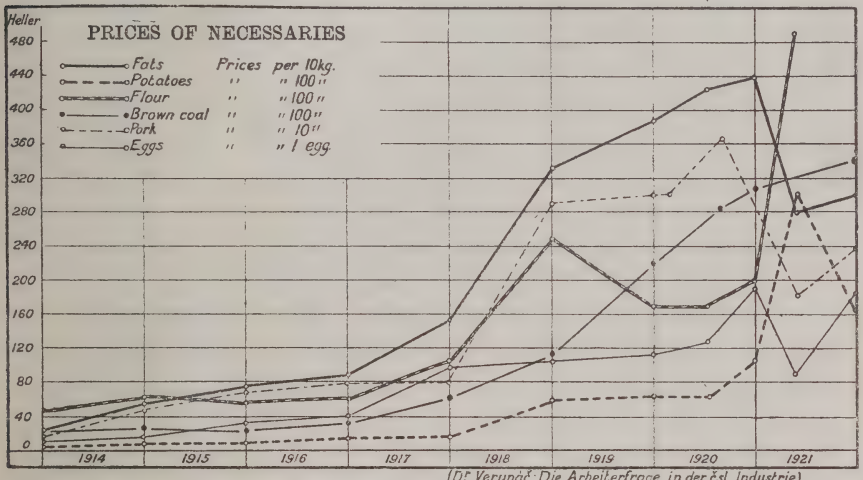
To what these premium payments would amount could not be estimated, for they would, of course, be increased in proportion to the decline of the krone in the international market.

Moreover, there was a growing opposition on the part of the farmers to furnishing supplies at the lowered prices dictated by the leaders of the Socialist party in power. The more the depreciation of the krone raised the world price of wheat when converted into kronen, the better the farmers could make money by trading surreptitiously in milk, meat, and fat instead of in corn which they had turned into fodder. In fact this system led to corn being used extensively for fodder, as the flour produced from the corn supplied to the State was sold cheaper than bran. This concerted passive resistance on the part of a large producing class was furthered by the enormous rise in the wages of agricultural labourers and in the payments in kind which the employers were compelled to give them as part of their wages.

The smallness of the contributions collected from the farmers resulted in an increased quantity of corn being imported, and consequently in a growth in the Government subsidies for flour and bread.

The confusion was increased by the restriction of rations among certain classes of the population, and in this way originated the violently disputed system of class maintenance established with the help of the workers' co-operative stores, and at the same time the practice of underhand purchasing of flour at high prices, which the Government had to tolerate because it could not supply flour in good time to all consumers.

The Government budget was completely upset, as it was impossible to estimate the deficit in advance, and imagination



(Dr Verunač: Die Arbeiterfrage in der čsl Industrie)

had free play. Another consequence was that every criterion for fixing wages had disappeared. This is evident from the fact that wages and salaries were governed by contract, while the price of the necessaries of life was fixed by regulations—regulations, however, which nobody obeyed, so that in practice buying was carried on by underhand trade, unchecked by public market prices.

The above table illustrates the rise in the cost of necessaries.

It is clear that in all cases where the Government itself carried on trade, it endeavoured to reduce the cost of these necessaries in the year 1919. Even where it did not wholly succeed, an excessive rise was prevented, though at the cost of the State. In this connexion it must be mentioned that an increase of

rents was not permitted, so that expenditure on this essential showed no rise.

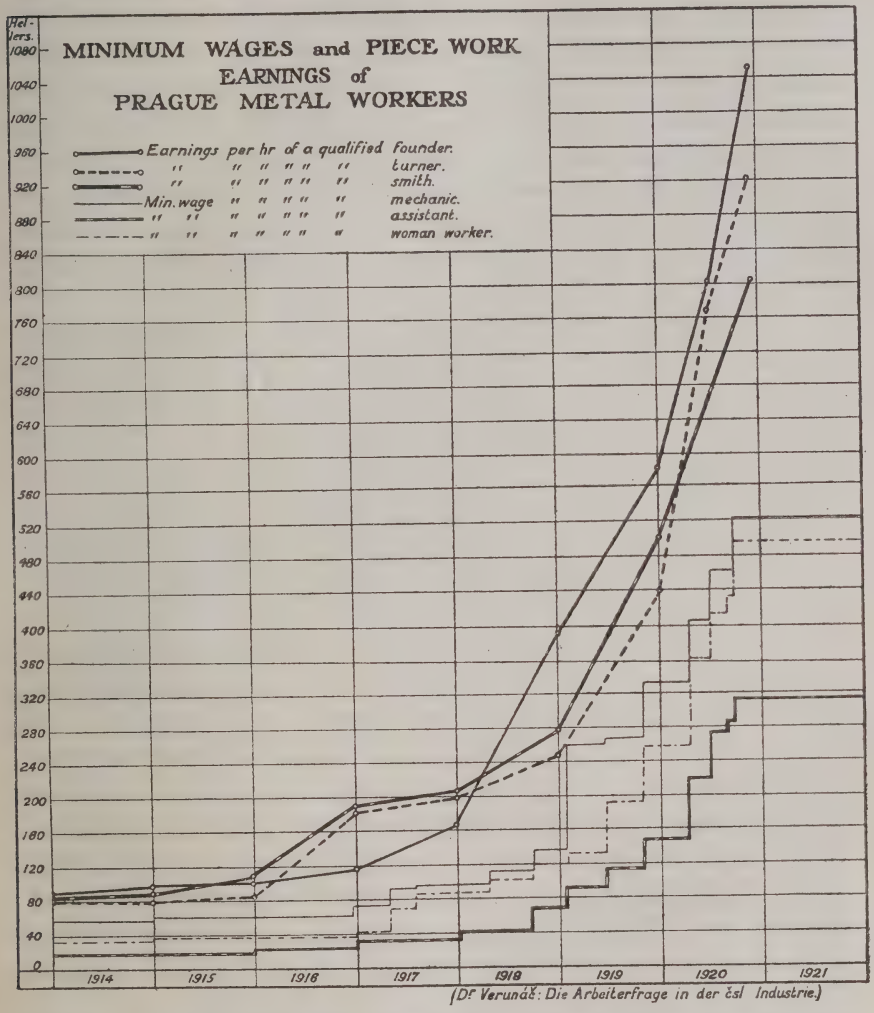
(*b*) In spite of all these endeavours, however, the wages of labour rose with extraordinary rapidity. So did the salaries of employees and officials, though not at the same rate, because they were not so numerous and, besides, lacked the power of intimidating employers by threats, strikes, and passive resistance.

The table opposite will serve to illustrate the rise in wages. It gives the minimum and actual wages in the Prague metal industry, and affords a correct guide for other districts, subject to occasional variations upwards and downwards.

The gradual upward trend of wages at the foot of the table indicates the rise in minimum wages, while the dark lines represent the actual earnings at hourly rates. Comparing this rise in wages with the rise or fall in the price of necessaries, we see that in the year 1919 the rise curve had not stopped, had not even adhered to the previous line of ascent, but from December 1919 became much steeper. The Government of the Socialist majority ranged itself directly on the side of the workman, and the employers had not sufficient power of resistance to refuse the demands of labour. They made wholesale concessions, and simply transferred the high wages to the prices of home products, thereby increasing the general dearness and reducing the purchasing power of the krone at home.

All expenditure of the Government, running into millions, on flour, fats, potatoes, &c.—whether purchased abroad or at home—was incurred in vain so far as the economic life of the country was concerned, because it did not bring about a cessation of the rise in salaries and wages, an object which was its only reasonable justification. For there was clearly no economic reason for this sudden rise in wages, which was simply due to the political and psychological temper of the masses. Among the working classes the opinion was openly expressed that the moment had come for them to seize the mastery—but by no means the leadership—that they were now the masters and that their former masters would now become their servants.

Throughout the whole of Europe, indeed, the working classes were imbued with this false idea, which was fostered by the communistic experiments of the Bolshevist Republic. This



(Dr Verunáč: Die Arbeiterfrage in der čsl Industrie.)

feverish condition of the masses did not indeed break out in the Czechoslovak Republic in direct social-revolutionary action, but found expression in that empty Bolshevism which teaches that high wages, strikes and reduced output must eventually succeed in expropriating capital.

This 'dry' Bolshevism had not been methodically worked out, and had results, if any, only in so far as the increase of wages could be transferred to the prices of production. It fostered discontent among all classes and constant agitation for the purpose of increasing incomes. It bred such confusion that business men found difficulty in making calculations of any kind. Consequently they welcomed every fall of the krone on the international market, because they were then in a position to export goods produced at a cost so high that they could not possibly compete in the world's market save for the export premium afforded by the low rate of the krone. This political and social fever pervaded the whole organism.

The immense jumps in wages caused a sudden rise in the standard of living of the broad masses of the population, and in the pursuit of pleasure nothing was too dear to prevent its acquisition. This sudden rise in the incomes of wide strata of the community—an intensified rise far above the former standard of living—necessarily entailed a large rise in the cost of all necessaries of life, even of articles of luxury, of entertainments, &c., and, concurrently, a reduction in the purchasing power of the krone at home.

Neither capital nor the capitalists were destroyed or expropriated by this 'dry Bolshevism'. On the contrary, by passing the increased wages on to prices they maintained their full vigour. The workers did not acquire, did not command any capital. As they had geared up all prices to the top of their bent they did indeed raise their standard of living, but they expended every bit of their high wages. The only sufferers were the people with small independent means, pensioners, owners of rented houses, and all who had stationary incomes, which sufficed to buy only a tenth or a twelfth of what they had covered in peace time.

The second half of the year 1919 and the first half of 1920 witnessed a most serious crisis, provoked by grave discontent among the masses, and the economic life of the State was shaken to its foundations. There were many who speculated whether an outburst of passion, followed by the reaction of

restored common sense, would not be preferable to this creeping, paralysing malady of the body politic, slowly sapping it of all vitality. There were others who anticipated with certainty that a serious market and production crisis would supervene, which must bring to reason all who declined to believe that an increase in income is identical with an increase in the cost of production, and renders competition in foreign markets impossible.

(*c*) Americans who had seen the conditions of life of the Republic at the end of 1918 and in the beginning of 1919, and who returned in the autumn of 1919 and in the early part of 1920, were astonished at the change which they noticed—at the *malaise* which affected the Republic. And this was the case with every foreigner.

It was impossible to obtain credit abroad, as the Republic had the bad reputation of being a Bolshified country. Germany readily gave us credit. Germany printed uncovered bank notes, had money enough, and freely gave credits in marks. Exporting and importing against kronen were permitted without more ado. The Entente forced us to sell sugar and coal more cheaply to Austria, which exported the surplus in return for high-priced foreign currency.

We fell into a state of economic dependence on Germany. Exporting again took place through Vienna against Czech kronen and through Germany against marks. Vienna and Berlin, having again become re-exporters of our goods, had an interest in the fall and rise of the krone in sympathy with the mark and the Austrian krone.

Through dread of loss on the exchange, importation of goods through Germany (rice and wool via Hamburg, cotton and copper via Bremen, &c.) was carried on only against marks. The fate of the import trade was bound up with the mark. This only confirmed Germany's interest in the maintenance of the relationship between the mark and the Czech krone. This interdependence was, however, welcomed by exporters. The mark fell steadily. Exporters were only too glad that it should drag down the krone with it, and thus render possible an export

trade which, owing to increased costs, had then been brought to a standstill. For this reason the assistance arising from the depreciation of the krone was welcomed.

47. The tables inserted at pages 66 and 67 show the variations in quotation on the Zürich Stock Exchange of the Czech krone, the mark, and the Austrian krone, in the three periods to the end of July 1919, to the 2nd of February 1920, and to the middle of the year 1921. These show in the clearest possible way how the Czechoslovak exchange developed in inverse ratio to the rise in wages, and how it shared the fate of that of two other countries—Austria and Germany—which had designedly courted inflation, in spite of the fact that the circulation of bank or State notes in Czechoslovakia had not risen.

48. For the student of political economy the case of Czechoslovakia is particularly instructive. Inflation, with all its consequences, is not caused by an increase in the currency circulation alone, but also by the excessive rise in incomes among large sections of the population. If the theory of quantity were correct, the mark and the Austrian krone should have fallen, since in these two countries the currency had been increased; while the Czech krone should not have fallen, because, as we shall demonstrate farther on, the currency had not been increased. But in spite of this, the same depreciation affected the Czech krone and the same phenomena accompanying every inflation—high prices, the pursuit of pleasure, the deterioration of productive capacity, and the straining for unearned profit—made their appearance. This I can attribute to no other cause than the disproportionate incomes, which lead to excessive buying, and that, too, of goods which are not produced in sufficient quantities owing to the impaired capacity for work and to the life of ease led by the productive classes in the enjoyment of high incomes. The national budget shows an adverse balance, consumption exceeds production, the purchasing power of money at home diminishes, a fact which finds its counterpart in the exchange value of the krone in other countries. The debit balance is abnormally increased, and is accentuated by greed for what is not available at home but has to be imported

from abroad. Native wine is no longer satisfactory, but Rhenish, burgundy, and champagne are ordered; Brunn or Reichenberg cloth has ceased to be suitable, and only English materials are in demand; apples and pears are not good enough, nor walnuts and hazel-nuts, the cry is for oranges, dates, figs, and almonds.

49. When (on the 28th of February 1919) in my capacity as Minister of Finance I introduced in the National Assembly the bill for the stamping of bank notes and withholding of 50 per cent. of the net proceeds, I scouted the idea that contraction of the currency would of itself result in abatement of prices, and, characterizing this as a childish illusion, I continued:

'We ought all to be aware that our Czech krone can only ring well and have a good exchange value if and when the following capital conditions of economic life are fulfilled. We must learn to arrange our national budget so that it does not show a deficit, to make economies in this budget, to spend only what is absolutely necessary, to meet a possible deficit by taxation, not by raising loans and printing bank notes. *We must all learn to work, we must all learn to save.* We must save—save and produce, otherwise our Czech krone will depreciate in the same way as the Austrian krone.'

'To me saving means not only reduction of consumption and investment of capital, but also a rational system of production ensuring a saving in the cost so that the selling price may be as low as possible—not a system under which the cost of production is raised simply because it can be added to the selling price. To me work means the expenditure of all our energies so that we produce not merely what we need, but more, in order that we may replace what the war has destroyed or used up.'

I concluded this part of my speech with the words: 'We cannot improve the money standard simply by passing a law here in the National Assembly, or by the issue of some enactment; we can raise the value of our currency only if we all work and all save.'

Accordingly it was certainly no surprise to me when the krone began to depreciate in the second half of the year 1919, because at this time the state of the national budget became rather precarious owing to the enormous increase in the numbers and salaries of Government employees; communal accounts began to look rather dubious; deficits were covered by borrowing instead of by taxation; productive power was fettered by high costs of production; and reckless expenditure and general extravagance and pursuit of pleasure were still increasing. This state of affairs was not, indeed, peculiar to us, but prevailed in all countries affected by the world war. People were impatient, and wanted to shake off at once the sorrows and hardships following in its wake, and it was vain to try and show them that by this attitude they merely prolonged its aftermath.

50. The feverish malady which attacked the Czechoslovak Republic in the second half of 1919, and which led to the depreciation of the krone, began to abate in the last six months of 1920, after the defeat of the Bolshevik armies at Warsaw, and influenced by the crisis in production which had affected not only Czechoslovakia, but the whole world.

The corn used for fodder had not been wasted; the farmers had recruited their stocks of cattle; the herds of swine had increased; the market stocks of meat and fat were plentiful, so that prices began to stabilize and gradually to fall.

In September 1920 the Social Democratic party, to which the majority of the working classes belong, determined to sever its connexion with the Radical Socialist party. The latter declared themselves Communists; and thus it came about that open warfare commenced between the Social Democratic Right and the Communist wing among the labouring classes. The forces of law and order asserted themselves against the revolutionary attacks in due course. An attempt at a Communistic 'putsch' in December 1920 failed, and was suppressed by the Government with great decision.

On all hands it was recognized that to allow State marketing in every class of goods to continue was out of the question, and that freedom of trade and free competition must again come

into play. The control of meat and fats was discontinued altogether and that of corn and flour restricted. One Government control office after another was liquidated.

Under pressure of the market crisis manufacturers had to stop passing on the increased costs of production to the consumer; they incurred losses, and came to the conclusion that they must do business and carry on production in a reasonable and economical manner. Under the same influence the working classes began to see that high wages can only be maintained in return for high output, and their efforts were now directed not to increasing but simply to maintaining their wages at the same level.

Attempts were made to make the national budget balance and, if these were not wholly successful, yet they resulted in proposals for attaining this object not by raising loans but by imposing new taxes, both national and local, and by placing the communal affairs under control.

Slowly but with growing intensity the principle of economy in production and in public affairs gained ground. The Czechoslovak Republic began to recover from its disturbed condition, and set itself to repair the damage caused by a year of after-war turmoil.

VII

THE BANKING DEPARTMENT OF THE MINISTRY OF FINANCE

51. In this medley the Czechoslovak Republic remained loyal to the law of the 10th of April 1919 regarding the currency. The circulation was not increased in spite of pressure from trade and industry and in spite of an adverse budget balance. Representations were constantly being made that, in view of the great rise in prices, the media of payment were inadequate and should be increased. But the Banking Committee, composed of experts appointed irrespective of party, was firm and rejected all temptations, adhering to the principle that the circulation should only be increased—when business conditions demand it—by the presentation of commercial bills against goods.

The Committee pointed out that sales were still taking place for ready money, a fact indicating that there was a sufficiency, indeed a superfluity, of currency, as neither bills nor other paper which take the place of currency had come into use. And thus, under the influence of the money scarcity, commercial cover developed as the following table of figures shows:

In thousand kronen

Period	*Bills in hand*	*Loans on security*	*Foreign bills*	*Gold and silver*	*Currency loans transferred by Government*
1919					
31 May	26,343	630,171	9,561		
30 June	26,416	425,061	12,130		
31 July	26,506	424,291	8,265		
31 August	26,554	425,301	8,570		
30 September	27,386	422,840	8,435		
31 October	28,283	423,238	9,560		
30 November	29,430	437,615	11,789		
31 December	79,568	502,319	13,954		
1920					
31 January	150,886	560,188	25,887		
29 February	245,828	938,304	56,871		
31 March	530,269	1,070,999	254,943		
30 April	599,492	1,236,867	263,419		
31 May	755,965	1,466,779	378,484		
30 June	691,805	1,828,353	511,156		
31 July	724,841	1,986,937	549,308		
31 August	797,360	2,142,149	448,597	2,808	250,000
30 September	1,065,927	2,279,112	708,838	3,067	250,000
31 October	1,695,546	2,265,884	389,478	4,231	250,000
30 November	1,779,853	2,164,120	254,272	40,311	250,000
31 December	2,015,526	2,322,714	455,596	152,819	250,000
1921					
31 January	1,794,018	2,206,943	165,383	164,491	250,000
28 February	1,672,562	2,095,838	332,744	175,536	250,000
31 March	1,667,163	1,986,552	518,745	215,585	250,000
30 April	1,352,284	1,956,383	647,533	232,983	250,000
31 May	1,085,950	2,031,694	780,155	248,626	250,000
30 June	1,085,254	1,998,012	783,472	304,561	250,000
31 July	1,083,971	2,354,959	507,497	320,708	250,000
31 August	810,246	2,399,533	845,934	337,609	250,000
30 September	984,375	2,508,830	546,942	351,184	250,000
31 October	1,606,914	2,451,287	599,733	374,795	250,000
30 November	1,854,435	1,756,876	488,720	535,284	
31 December	1,892,968	1,714,534	532,632	552,289	

The total of bills with the bank rose from 26·5 million Czecho-kronen on the 31st of August 1919 to 797 million on the 31st of August 1920 and to 1,066 million on the 30th of September 1920 (the beginning of the sugar season); rose further during the season, to 2,015 million on the 31st of December 1920, and then fell to 785 million kč. on the 15th of September 1921.

It is clear from this variation of the bill holding that it corresponded to the monetary requirements of trade, and that the circulation was becoming elastic.

When we consider that the negotiable cover, e.g. on the 31st of August 1920, amounted to 3,639,914,000 kč. with an actual circulation of 9,814,920,000 kč., we cannot fail to appreciate the progress made.

The balance sheet for the year 1920 shows a turnover as follows :

	kč.
Holding of bills on 31. 12. 1919	76,259,043·42
Discounted, in 1920	4,815,089,442·46
Together, 23,610 bills worth	4,891,348,485·88
Taken up, 17,001 bills worth	2,903,381,751·85
Leaving, 6,609 bills worth	1,987,966,734·03

Loans on securities too were not stationary. In the course of the year 1920 loans against securities were granted to the extent of 3,360,691,900 kč., while others amounting to 1,540,297,600 kč. were redeemed. To secure elasticity is the chief aim of every bank of issue, and this object was at least partially achieved.

52. To ensure that the law of the 10th of April 1919, No. 187, concerning the regulation of the currency is not transgressed, the Banking Department prepares its statement in such a way that the correctness of its dealings can be checked. Thus in the assets are included the claims against the Austro-Hungarian Bank arising from the stamping of bank notes and their conversion into State notes, as also the claims arising from the taking over of the current accounts and Treasury bills to the value of 2,084,418,521·82 kr. of which 647,349,039·23 kr. were withheld.

These figures enable a calculation to be made of the sum to which the State note circulation may amount, in accordance with section 10 of the law in question, without further cover (i.e. as a State debt), and also what amount may be issued on the basis of negotiable cover.

For example the statement of account up to the above-mentioned date (31st of August 1920) is as follows :

		kč.	*kč.*
(*a*)	On bank notes of the Austro-Hungarian Bank withdrawn	7,435,990,000	
	Withheld at stamping	2,134,149,000	
	Exchangeable for State notes		5,301,841,000
(*b*)	On current accounts of the Treasury and the Austro-Hungarian Bank taken over		789,720,000
	On balances of private current accounts taken over	827,164,000	
	Left in circulation after 50 per cent. curtailment		413,582,000
	On Treasury bills taken over	467,534,000	
	Left for circulation after 50 per cent. curtailment		233,767,000
	State notes without cover may therefore be issued for		6,738,910,000
(*c*)	Negotiable cover, consisting of :		
	Discounted bills	797,360,000	
	Loans on securities	2,142,149,000	
	Foreign currency and bills	447,597,000	
	Precious metals	2,808,000	
	Currency loan purchased	250,000,000	3,639,914,000
	Admissible circulation		10,378,824,000
	Actual circulation amounted to		9,814,920,000
	Reserve available		563,904,000

In every statement it submits the Banking Department furnishes similar figures to show whether the circulation is in keeping with the Law, so that the general public may be able to see and check them.

53. This matter is all the more important because the property tax will reduce the uncovered circulation, being paid to the Banking Department which withdraws the notes from circulation. Hitherto not much has been paid in on this account.[1] Payments in cash are refunded to the Ministry

[1] The payments on the property tax have since then considerably increased. According to the returns up to the 30th of September 1922 no less than 1,683 millions

of Finance to meet its expenditure on deposit certificates for bank notes withheld. Payment is also made by means of these deposit certificates, and hence the statement of circulation is all the more important, as although the figures of the loan formed by the bank notes withheld at stamping diminish, yet in calculating the possible circulation the undiminished figure must always be taken into account, in order that the circulation may not be increased beyond what is admissible.

On the 31st of October 1921 the value of the bank notes withheld, as shown in the statement, amounted to 1,159,549,000 kč.

	kč.	*kč.*
that is, the original amount		2,134,164,000
was diminished to the extent of the payments for Property Tax	525,747,000	
and of the deposit certificates deposited, but not passed to account	448,868,000	974,615,000
i. e. by an amount of		1,159,549,000

The calculation on the same day of the admissible circulation shows :

	kč.	*kč.*
Bank notes of the Austro-Hungarian Bank withdrawn		8,000,052,936·80
less bank notes withheld at stamping . .	2,134,164,406·78	
and bank notes withheld at conversion . .	315,907,561·10	2,450,071,967·88
Total		5,549,980,968·92
Add the current accounts and Treasury bills after deduction of the 50 per cent. withheld .		1,437,069,482·59
So that there could be issued uncovered .		6,987,050,451·51
Since the negotiable cover (bills, securities, gold, silver, foreign bills, currency loan) on 31st of October 1921 amounted to . . .		5,427,158,449·90
it was permissible to issue State notes to the amount of		12,414,208,901·11
The actual circulation was		12,327,158,688·15
So that the amount unused was . . .		87,050,213·24

have been paid off. The value of the notes retained at stamping has fallen to 673 millions, and next autumn it is proposed to take up the repayment of deposit certificates to those persons who have paid the tax or are exempted therefrom, the necessary funds to be taken from the sums paid in as property tax in order to avoid swelling the circulation.

The possible circulation on the 31st of October 1921 compared with that on the 31st of August 1920 was thus two milliards higher, but on the other hand the negotiable cover had also risen by nearly two milliards. The disparity was accounted for by the fact that the delivery of all notes and deposit certicates had ceased, thus increasing the possible amount of the uncovered issue by 250 millions.

The progress in consolidating the monetary conditions was evident also in the stabilizing of the exchange of the Czechoslovak krone, which was the only currency throughout Middle Europe that remained unshaken at the time of the big drop in the mark from September 1921 onwards.

54. The maintenance of a small circulation gave occasion for a more extensive use of the clearing house system. The statements of the Prague Clearing Union, of which thirty-two banks are members, show that the cheques, &c., cleared were

in the year	1913	152,273	worth	1,338,691,532·51 kč.
„	1914	147,903	„	1,248,717,387·75 „
„	1915	113,292	„	1,142,659,099·08 „
„	1916	50,200	„	1,476,436,110·68 „
„	1917	40,733	„	1,734,173,736·80 „
„	1918	46,295	„	2,442,828,351·08 „
„	1919	140,519	„	11,870,641,611·84 „
„	1920	331,010	„	41,533,733,095·78 „

These data indicate how the printing of bank notes during the war had been reducing the number of cheques presented, while increasing the average amount of the individual payments; but as more notes were printed than trade required, payments were made in ready money and did not come through the clearing house. The cessation of printing uncovered banknotes, and the contraction of the circulation at the time of stamping brought about, even in the year 1919, an increase in the number of cheques cleared almost to the level of the year 1914, and in their value almost to nine times that of 1914, although the average value of the krone in that year had fallen to about a fifth of its value in 1914.

In 1920 the number of cheques cleared amounted to more than double that in 1913 and the value rose thirty-one times,

although the krone had depreciated on an average to one-fifteenth.

The same features were apparent in connexion with the Postal Cheque Office, as is shown by the following figures :

DEPOSITS (in thousand kronen)

For period 20. 11. to 31. 12. 1918	650,175	
of which other than in cash		119,880, or 18·4 per cent.
For year 1919	21,284,326	
of which other than in cash		11,282,817 ,, 53·7 ,,
For year 1920	56,285,764	
of which other than in cash		32,226,779 ,, 57·5 ,,
For period 1. 1. to 31. 10. 1921	64,468,920	
of which other than in cash		35,870,223 ,, 56 ,,

PAYMENTS (in thousand kronen)

For period 20. 11. to 31. 12. 1918	212,553	
of which other than in cash		119,880 ,, 56 ,,
For year 1919	20,319,879	
of which other than in cash		15,348,427 ,, 76·7 ,,
For year 1920	55,474,439	
of which other than in cash		44,734,589 ,, 80·6 ,,
For period 1. 1. to 31. 10. 1921	64,358,862	
of which other than in cash		50,404,497 ,, 78·75 ,,

The number of cheque (drawing) accounts grew in the period from the 1st of January 1919 to the 31st of October 1921 from 8,268 to 62,518. The Austrian Post Office Savings Bank had reached this number after twenty years of business, and at the end of 1914 it had 126,624 cheque accounts, of which 45,600 were in Bohemia, Moravia, and Silesia.

In Austria the deposits by way of cheque amounted (in thousand kronen) to :

For year 1913	1,680,961	
Other than in cash		7,654,771, or 47·8 per cent.
For year 1914	18,279,962	
Other than in cash		8,314,604 ,, 46 ,,

The payments (in thousand kronen) amounted to :

For year 1913	16,853,930	
Other than in cash		7,654,771, or 47·9 per cent.
For year 1914	17,791,726	
Other than in cash		8,314,604 ,, 46·9 ,,

The figures for Czechoslovakia are therefore considerably

higher, both absolutely and relatively, than those for former Austria as a whole.

55. From this growth in non-cash payments one may draw the conclusion that the currency was sufficient although it had not been increased in spite of the fall of the krone and the rise in prices; that the revival of the credit system on a pre-war scale was unnecessary; and further that goods were being sold for cash and not on credit or against bills.

But it would be a great mistake to suppose that business went on without credit. The difference from the normal condition lay simply in this that credit for goods sold was not given by the vendor, but that he obtained money by direct credit in the shape of an advance from the bank—credit which simply represents tied up working capital, with regard to which it is difficult to determine whether it has not been converted into productive expenditure or into unsold or unsaleable stocks of goods.

The normal method of trading before the war was for the vendor of goods to receive from the purchaser three, four, or six months' bills, which he used to discharge his own debts or else sold to the bank. This system resulted in the circulation of real commercial bills—i.e. bills arising from trade in goods—payable at maturity; so that the merchant's efforts were necessarily directed to effecting a timely sale of the goods for which he had to pay at a definite date. Thus the circulation of goods was more rapid, the holding up of them for speculative purposes more difficult, and the prices ruling normal.

Every effort is being made to return to this normal condition, partly by the Banking Department reducing the discount rate for commercial bills and raising the difference between the bill discount rate and the interest on loans on securities (now 1 to 1½ per cent., formerly ½ to 1 per cent.), partly by the banks forcing their customers to give them commercial bills while curtailing loan credits.

56. The further development of the regulation of the currency is roughly as follows:

On the 14th of April 1920 the National Assembly passed

a law, published as No. 347 (Coll. L. a. O.), authorizing the establishment of a bank of issue, of which the State should only have the supervision. Effect has not yet been given to this law nor can it be done until the liquidation of the Austro-Hungarian Bank has been carried out and the property tax put into operation. The new Bank of Issue can then begin business with a small portion of bank notes not covered by private liability or by precious metal.

It is certainly no less essential to its establishment that the State's obligations under the Peace Treaty should be settled; that the national budget should be made to balance; and that the krone should attain stability for a certain period. For the transition to a new currency requires as a preliminary condition that the stabilized value of the krone should find expression in the prices of claims and demands, in order that the relationship of the krone to the new currency may be accurately determined in accordance with them.

How the new currency unit is to be constituted—whether larger or smaller than the krone—the law does not mention. The Bank of Issue, under the name 'Národní banka československá' (Czechoslovak National Bank) is to have a share capital of 75,000,000 currency units in gold, divided into 150,000 shares, of which the State will take up 50,000 in one block. At the head of the Bank is a Governor, nominated by the President of the Republic for a term of five years, with nine Members of Administration, of whom six are to be elected in general meeting of the shareholders, and three appointed by the President of the Republic on the recommendation of the Government. Further the Government shall exercise its right of supervision through a Government Commissioner.

This law has settled the question for the time being to this extent that the Bank of Issue shall be established on the principle of private legal liability, and that the existence of the present Banking Department as a Bank of Issue is merely a transitional arrangement. The law has also settled the question whether, during the existence of the Bank, the Government may issue

State notes, and has settled it in the negative. The bank notes must be covered by precious metal to an extent of 35 per cent.—a stipulation whereby the Government has committed itself to the metal standard theory—although it was provisionally left an open question whether the bank notes should be based on gold, or silver, or on both metals. The prevailing uncertainty in the metal market has, for the time being, prevented the Government from deciding on a definite system.

57. All these facts indicate that in the Czechoslovak Republic much labour and trouble is spent on remedying the disorder in the currency.

If it was not practicable in the space of two or three years to obviate the consequences of abuses prevalent during five years of world war, assuredly this is not the fault of the new State. The fact, however, that, during the frightful collapse of the German Imperial mark in September, October, and November 1921, the Czechoslovak krone showed such power of resistance is proof that the sound policy pursued in the Republic is justified by its results.

PART II

NATIONAL FINANCE

I

THE BUDGET

58. During the war the Austrian budget covered the period from the 1st of July of one year to the 30th of June of the following year, and the Hungarian budget the period from the 1st of January to the 31st of December. Under the Act of the 28th of October 1918 (Coll. L. a. O., No. 11) all the existing Laws and Ordinances were declared as remaining in force, and consequently the Austrian Finance Act (Budget) continued valid up to the 30th of June 1919 and the Hungarian provisional budget up to the 31st of December 1918. Accordingly, after the Revolution the Government administration was carried on on the basis of these budgets. The taxes, customs-duties and monopoly dues hitherto in force continued to appear in the revenue column. Fresh items, especially those connected with the development of the new State, were provisionally sanctioned by the Ministerial Council and were submitted subsequently to Parliament for approval. Under the Act of the 20th of December 1918, No. 95, a provisional budget for the period up to the 30th of June 1919 was framed, for which the Austrian and Hungarian budgets served as a basis. The proportion of the Austrian budget which should fall to Bohemia, Moravia and Silesia and the proportion of the Hungarian budget to Slovakia was simply estimated, and accordingly this budget will not form the subject of our consideration or the basis of our criticism. At the beginning of January 1919 the Ministry of Finance began to prepare the budget for the period from the 1st of January to the 31st of December 1919, making the period embraced by it coincide with the calendar year. This budget was brought in on the 27th

of June 1919 (Coll. L. a. O., No. 433) and fixed the revenue and expenditure for the year 1919 as follows:

Expenditure		
	kč.	*kč.*
Ordinary	2,124,849,145	
Extraordinary	4,588,675,768	6,713,524,913
Revenue		
Ordinary	2,306,620,082	
Extraordinary	505,762,689	2,812,383,913
		3,901,141,413

This deficit of 3,901,141,413 kč. was to have been covered to the extent of 3,903 million kč. by credit operations. But the estimates were very considerably exceeded and under an Act of the 18th of December 1919 (No. 670) a supplementary budget was passed in which the total expenditure of the State figured as follows:

Expenditure			
	kč.		*kč.*
Ordinary	2,609,823,719	i. e. an increase of	484,974,574
Extraordinary	6,005,512,073	„ „	1,416,846,305
Total	8,615,345,792		1,901,820,879
Revenue			
	kč.		*kč.*
Ordinary	2,613,667,502	i. e. an increase of	307,046,700
Extraordinary	1,096,086,998	„ „	590,324,300
Total	3,709,754,500	„ „	897,371,000

The deficit had therefore risen to 4,905,591,293 kč. This increase of the State expenditure was of a threefold nature:

	kč.
(*a*) The interest on the National Debt which during the year reached a total of	206,145,000
(*b*) The amount required by the Ministry of Defence in consequence of the Bolshevik invasion of Slovakia from Hungary	458,466,414
(*c*) The amount required for lessening the cost of living, i. e. cheapening foodstuffs	240,200,000
Total	1,204,811,414

The balance of about 700 million kč. was almost entirely

expended in increasing the salaries of the officials and employees of the State.

The increase of the revenue may be analysed as follows :

	kč.
From taxes and the tobacco monopoly	31,801,900
From the Post Office (increased postal charges)	27,767,100
From the railways (increased tariffs)	270,805,000
From the coal tax	5,997,000
From the State forests	6,000,000
From the spirits surplus fund	55,000,000
From the sugar beet surplus fund	500,000,000
Total	897,371,000

59. The same procedure was adopted in 1920. The fall of the currency showed itself in prices, and the expenditure both on materials and personnel increased. Accordingly the estimates for 1920 were as follows :

	Ordinary *kč.*	*Extraordinary* *kč.*	*Total* *kč.*
Expenditure	4,926,691,823	5,439,484,097	10,416,175,920
Revenue	5,323,582,361	2,427,188,412	7,750,770,773
Surplus	396,890,538		
Deficit		3,062,295,685	2,665,405,147

Comparing the budget for 1920 with that for 1919 the following results appear (+ or —) :

		kč.
Ordinary expenditure	+	2,316,868,104
Extraordinary expenditure	—	516,037,976
Total expenditure	+	1,800,830,128
Ordinary revenue	+	2,709,914,839
Extraordinary deficit	—	1,847,139,390
Total deficit	—	2,240,186,145

This growth of the ordinary revenue was the result of raising the existing taxes, the imposition of fresh ones—such as the tax on turnover, producing 800 million kč. and the entertainment tax, producing 12 million kč.—and the increased yield of the tobacco monopoly resulting from increase in the prices of the various forms of tobacco, producing 402 million kč. But the chief contributory factors to the increased revenue were the surpluses on the sugar, spirits, and malt funds. The State itself traded in these three export articles, and

while allowing the factories no more than the home price for sales abroad, appropriated the profits from such sales for account of the national revenue. In the second half of 1919 and at the beginning of 1920 there was a sharp fall of the krone and the profits on the exchange were therefore extremely large. These surpluses were accordingly estimated at 1,000 million kč. higher in the case of sugar, 40 million kč. higher for spirits, and 100 million kč. higher for malt than in 1919.

60. This welcome phenomenon of a decreased deficit did not continue, for the fall of the krone resulted in an increase of the salaries of civil servants and also of the subsidies for flour imported from abroad. Once again the Government was compelled to bring in a supplementary budget, in which they made the following demands :

	kč.
For national defence, a further credit of	1,129,908,080
For other departments, a further credit of	3,670,336,932
Showing therefore an increased total expenditure of . . .	4,809,245,012
And since in the ordinary budget it amounted to . . .	10,416,175,920
it totalled altogether	15,225,420,932
i. e. compared with the 1919 expenditure of	8,615,345,792
An increase of	6,610,075,140
Or 43 per cent.	

This was to be covered as follows :

(*a*) By savings in other items of the budget (for the first time the watchword ' economy ' made its appearance) ; on the one hand in the item of the National Debt which showed 280 million kč. as interest on the National Debt and 810 million kč. as interest on the Austro-Hungarian Debt not yet allocated ; and on the other hand in the item relating to the relief of those injured in the war, which amounted to 945 million kč. The maximum amount saved in this way was 1,217 million kč. (*b*) An increase of revenue was to cover 2,622·7 million kč. (*c*) A loan was to cover 1,129 million kč.

The increase in the revenue was derived mainly from the 30 per cent. coal tax, which actually represented 42·8 per cent. of the price of the coal ex pit and caused an enormous increase in the cost of production in coal consuming industries.

	kč.	
This increased coal tax was to yield	800	million
The Railway Administration again increased the tariffs, anticipating an increased yield of	1,405	,,
The Post Office increased the postal charges, anticipating an increased yield of.	185	,,

The other items were of less importance, but the increased railway tariffs and postal charges also meant an increase of the costs of production which rendered competition impossible, especially with Germany, where the Government raised neither taxes nor railway tariffs but simply printed bank notes.

61. With regard to productive (invested capital) expenditure, the supplementary budget contained an item of 990 million kč. for expenditure by the railways on new construction and the provision of rolling stock. It was generally expected that the Reparation Commission would have completed the distribution of the carriages and locomotives among the Succession States before the end of 1920. This, however, was not the case. No decision was arrived at as to the rolling stock, which indisputably belonged to the sections of line in each State, and the Commission did not even decide as to the rolling stock claimed by the individual States as their booty of war. If, therefore, the Republic desired to introduce even partial order, no other course was open to it than to construct new locomotives and carriages. For this object the sum of 350 million kč. was provided in the ordinary budget.

The total estimate for productive expenditure therefore amounted to

	kč.		kč.	
Railways			1,340	million
Posts and Telegraphs, ordinary budget	73	million		
Supplementary budget	127	,,	200	,,
Agriculture, ordinary budget . . .	13·4	,,		
Supplementary budget	1·6	,,	15	,,
Labour for mines and electrification, ordinary budget	26·4	,,		
Supplementary budget	30	,,	56·4	,,
So that the productive expenditure amounted to			1,611·4	,,
out of a total budget of			15,225	,,
leaving on account of other expenditure			13,613·6	,,

The productive expenditure therefore amounted to slightly more than 10 per cent. of the whole estimate. On the other hand

	kč.	
The increased bonuses to civil servants amounted to . .	830	million
And those to railway employees to	293	„
So that in the year the administrative expenditure increased by	1,123	„

These sums do not, however, include the increases in teachers' salaries, which are paid by the Provinces and for which they receive advances from the State, so that these increases represent a sum of at least 1,800 million kč. At the same time the ordinary expenditure on the remuneration of State officials and employees increased owing to the fact that their number had swollen far beyond what was necessary. The additional workers who had been given employment during the war were retained, and, after demobilization had taken place and the former officials and employees had returned, the personnel was further increased under the pretext of the eight-hour working day. While the old and less efficient officials were unwilling to retire in order to avoid a diminution of income, more and more fresh officials were taken into the service. The cost of administration was enormously increased owing to the fact that under the pressure of inflated prices the communistic principle known as the ' social wage ' was adopted, according to which each person ought to receive as much as he and his family require—not as much as he earns and his labour is worth to the State. ' Family bonuses ' were introduced, with the result that a servant with several children had a larger income than a University-trained Head of a Department who was older and senior in point of service. Further, the Republic had been obliged to adopt the system of automatic promotion, introduced into Austria in 1912, whereby each official and employee after a certain number of years was automatically promoted to a higher salaried class, even if he possessed only average qualifications; and this in itself represented a heavy burden on the State and a constant increase of expenditure. The National Assembly, however, passed

a further Act whereby each official and employee after his automatic promotion had all the years of service before 1912 credited to him *retrospectively*. Moreover, as in addition double salaries were paid for the war years, an enormous number of officials at once skipped over several salary classes and not only received largely increased salaries but were also given the corresponding 'high price bonuses'. The result was that while salaries were levelled up, the more qualified officials who had been more highly trained and had been given more responsibility, became discontented, receiving as they did proportionately smaller remuneration than the employee without responsibility. Matters actually went so far that the pay of the lowest classes was twelve times higher than in peace time, in the higher posts only five times, and in the highest of all actually only three or even two and a half times.

62. This increase in the item of official salaries, caused by the depreciation of the currency as well as by the procedure described above, is given in the budget figures as follows:

Government expenditure on personnel, estimated in million kč.:

For 1919	1,959·4				
„ 1920	3,445	i. e. an increase of	1,485·6	or 75	per cent.
„ 1921	6,709	„ „	4,749·6	„ 242	„ as compared with 1919.
		„ „	3,264	„ 94	per cent. as compared with 1920.

Government expenditure on material, in million kč.:

For 1919	1,147·8				
„ 1920	3,336	i. e. an increase of	2,188·2	or 190·6	per cent.
„ 1921	3,226	„ „	2,078·2	„ 181	„ as compared with 1919.
		i. e. a decrease of	110	„ 3·3	per cent. as compared with 1920.

These figures show that owing to the depreciation of the currency and the rise of prices in the second half of 1919 the largest increase in the expenditure on materials, viz. one of nearly 200 per cent., took place in 1920, while in 1921 it declined. With regard to the expenditure on personnel the increase in 1921 was enormous and larger than in 1920. This was the

direct result of the wasteful and demagogic methods, opposed to all economic principles, adopted in the matter of reckoning the years of service and increasing the number of civil servants. For this reason all efforts in the direction of economy are aimed at the Administration's expenditure on personnel, with the object of reducing the number of civil servants and removing the unjustifiable privileges conferred upon them which impose so heavy a burden upon the budget.

63. There was, too, the fact that the National Assembly had passed Acts prescribing how the Provinces, Districts, and Communes should remunerate their officials, employees and teachers, but without assigning any direct revenue to them. Since, however, these autonomous bodies draw their chief revenue from the increments or additional charges on the direct taxes, as I have shown in the Introduction, these taxes were increased to an impossible degree and consequently became an absolutely intolerable burden.[1]

64. All these phenomena were connected with the tendency which I have dealt with in section 46 of this book and to which even the State Administration had fallen a victim, and this chiefly because there are so many people who regard the financial resources of the State as an inexhaustible stream and believe that taxes may be increased indefinitely. It was

[1] Joint-stock companies pay as tax 10 per cent. of their profit before the distribution of dividends, and the additions referred to above are then made. The situation is then as follows :

	kč.	*kč.*
If the profit amounts to		1,000,000
The taxes are :		
10 per cent. State tax	100,000	
State war tax of 150 per cent.	150,000	
150 per cent. provincial assessment	150,000	
100 ,, district assessment	100,000	
800 ,, communal assessments and for communal schools and Chamber of Commerce . . .	800,000	
Total tax with additional charges	1,300,000	

The total tax exceeds by 300,000 kč. what the company earns. The shareholders receive nothing. This anomaly had to be removed and that was done by an Act providing that the tax together with the additional charges might not exceed 80 per cent. of the net profits.

natural, too, that the Government officials and employees should endeavour to obtain remuneration proportionate to the increased wages of the workers. But we must note certain points of difference. So far as workers' wages are concerned, it is simply a matter of calculation on the part of an employer whether his undertaking, or a particular branch of it, can bear the burden of higher wages. In every branch of industry there are some undertakings, better equipped technically, better organized and more capable of competition, which can afford to pay higher wages. When these, with their superior productive and selling capacity, put up the wages of their own employees they cause wages to rise all round. Thus the process of wage increases is more rapid and general throughout private industry than can be the case in the civil service or Government undertakings, because, as regards these, legislation is required both for the grant of additional pay and for the means of meeting such expenditure. It had begun to dawn upon the more intelligent of the working classes that a further increase of wages was out of the question and that, by demanding such, they were not merely depriving the more fortunately situated undertakings of their chances of competing with foreign countries, but also the workers themselves of their employment. People in the mass are unfortunately as a rule not easily influenced by abstract considerations: it is the *argumentum ad hominem* that weighs with them, such as loss of employment. This form of reasoning—a *reductio ad absurdum*—had not yet come into force, and the administration of public affairs still continued on economically impossible lines.

65. The then Minister of Finance, Dr. Engliš, did indeed endeavour to make revenue and expenditure balance in the budget for 1921 by eliminating all productive expenditure and assigning it to a special 'productive expenditure budget', and by carrying out the principle that all such expenditure must be covered by loans. He then drafted the 'expenditure budget' in such a way that it showed a surplus; if he had not done so it would have been necessary to cover the deficit by new taxation.

The final figures of the 1920 budget were as follows :

	Ordinary kč.	*Extraordinary* kč.	*Total* kč.
Expenditure . . .	8,996,574,516	4,845,163,611	13,841,738,127
Revenue	12,079,376,370	2,050,543,180	14,129,919,550
Deficit		2,794,620,431	
Surplus	3,082,791,854		288,181,432

The final figures of the ' expenditure budget ' thus showed a surplus of 288,181,423 kč. but there was the ' productive expenditure budget ' amounting to 3,052,606,000 kč. still to be reckoned with. If we wish to compare the figures of this budget with those of the budget for 1920 we must first eliminate the figures for productive expenditure, when it will be seen that the expenditure figures really increase from 13,613·6 million to 13,841·7 million kč., an increase of only 228·1 million, while the productive expenditure has increased from 1,611·4 to 3,082 million kč.

66. But the budget unfortunately showed a deficit in two respects immediately after the vote was taken, viz. : owing to the relief given on account of ' high prices ' to civil servants and teachers, which totalled 1,600 million kč., and the subsidies on bread and flour, amounting to 2,200 million kč., this deficit alone thus amounted to 3,800 million kč.

An attempt was made to cover the first of these two sums by new taxes. But these taxes had a further object in view, namely the partial rehabilitation of the shattered economic system of the autonomous bodies (Provinces, Districts, and Communes); and, in consequence, they were necessarily far heavier than if it had been only a question of wiping out the budget deficit. Discussion on them took place at the time when the international trade crisis had begun. They were voted and introduced, but at the same time it was found advisable to concede rebates in the case of certain kinds of taxes and to give assistance to meet the continuous increase of the communal assessments. The conviction then gradually became general that it was impossible to go on imposing fresh taxes upon the population and increasing those already in force, and that the only possible means of bringing about equilibrium

in the national budget and in that of lesser public bodies was by effecting economies. Simultaneously with the introduction of the taxes, a Parliamentary Commission on Economy, composed of members of both Houses, was appointed at the instance of Dr. Kramář and the author of this work; and the 1922 budget was drafted with the word 'Economy' as its motto. The intention was to economize in expenditure on Government staffs by reducing their numbers and employing them to better purpose throughout the civil service and generally in Government and communal administration. The engagement of fresh staff was prohibited and instructions were given that civil servants who had served their full time should be pensioned off and not replaced, while others who had not joined the service in the regular course were to be discharged. 'Save, save, save!' was and is still the cry at all public meetings and in all the papers; and, just as formerly the chief weapons of the agitators were expenditure, increase of salaries and the establishment of new departments, so now the implication of unbusinesslike methods is a useful weapon to employ against any one, including the political parties. Thus, after three years, the Republic has arrived at the basic principle of economic life, especially of post-war economic life, and has realized that without economy and thrift the misfortunes and misery arising from the war cannot be remedied.

The second huge expenditure item of 2,200 million kč. for flour supplies at length induced the sober conclusion that it was impossible to continue an economic system under which the State subsidized the price of bread for the entire population. Czechoslovakia had inherited this system from the Austrian administration during the war. A Grain Office for the whole State had been established which had to place bread and flour daily on the table for 13·5 million inhabitants. For this purpose the population was divided into two classes. The agriculturists were told how much of their products they might use themselves: the remainder they were required to deliver to the Grain Office for the use of those who took no part in agricultural production. When the necessary aggregate ration for

the latter category had been determined it was ascertained how much would be left for the agricultural population and how much therefore they would have to deliver to the Grain Office. While each farmer was told how much he had to deliver, this did not free him from the duty of delivering more in case of a surplus yield. The grain required, beyond that available from the farmers' contributions, for feeding the non-agrarian population was to be imported from abroad. The price at which home grain was taken over was fixed without any regard to international prices ; foreign grain, on the other hand, was taken over at the prices prevailing on the world markets. The result, naturally enough, was enormous differences, which became all the greater the smaller the quantity of home grain delivered—in 1921 the requisite quota was short by 20,000 waggon loads—and the larger the quantity imported had to be. The farmers regarded this system as a new kind of forced labour, the more so in proportion as their own costs of production grew owing to the enormous increase in agricultural labourers' wages and gifts in kind (allowances) and also to the rise in price of all machinery and implements required in agriculture.

The Government made an effort, indeed, to cover these deficits out of extraordinary expenditure, but the effort failed. The proposal was that every manufacturer, merchant, or person carrying on business should pay one krone a day for each person insured with the Compulsory Sick Pay Offices. The population was divided into two categories :

1. Those whose annual income exceeded 15,000 kč. or who possessed property exceeding 30,000 kč. in value and were not insured in a Sick Pay Office. These were to pay 4 kronen for bread flour and 5 for cooking flour.

2. Those who were insured with a Sick Pay Office and whose income did not exceed 30,000 kč. These were to receive bread flour at 1 krone and cooking flour at 2 kronen, i. e. far below the purchase price. In addition a special duty was to be imposed, based upon the registered net yield of agricultural properties.

On the 20th of August 1920 fundamental opposition to this measure was manifested on the ground that it was the introduction of class legislation in the matter of supply. When it is remembered that a business man with an annual income of 15,000 kč., or the owner of a house worth 30,000 kč. had to pay 3 kč. more for flour per kg. irrespective of the number of his family, while on the other hand a worker employed by him, or a small house-owner with an income of between 20,000 and 30,000 kč. got his flour cheap, his master having to pay 1 krone per day for him in addition, it is obvious that this involved the creation of a privileged caste of insured employees and workers. The anomaly was the more glaring as no regard was paid to the amount of their property, while their incomes which entitled them to supplies of cheap flour were actually set down at double those of the rest of the population. The measures adopted were opposed to all principles of democracy and civil equality and formed the starting-point of attacks on any control of flour by the Government.

The second plan of meeting the deficit was to apply the yield from the 45,000 waggon loads of sugar exported to meet the balance of the deficit. This too was unsuccessful, for the price of sugar on the world market began to fall, and even if the entire yield of the exported sugar had been used for this purpose the country would still have been threatened with a large deficit.

The negotiations which took place in December 1920 and January 1921 in view of the increase of the price of bread and flour came to nothing owing to the unyielding attitude of the Socialist party, and thus the result of flour control was that 1,100 million kč. was paid towards the flour subsidies out of the sugar yield—as were also the flour duty and the agricultural land yield tax, amounting to about 840 million kč.—and still there remained an uncovered deficit of 2,200 million kč. which had to be met by credit transactions. These subsidies, totalling 4,140 million kč., were still further increased by the cost of running the Grain Office and of the Government machinery connected with it, so that a deficit of

4,500 million kč. for flour alone is anticipated. Thus the expenditure amounted to 18,500 million kč., to which the deficit on flour contributed 24·3 per cent.

67. These facts served to bring about the conviction that it was impossible to continue the flour subsidies or indeed any control of grain by the Government. It was obvious that the opposition of the agricultural population was insurmountable and that a continuance of the grain delivery quotas on such a diminished scale in the following year would be disastrous. Moreover, the urban population too resented the allotment of flour on a class basis and their opposition undermined the whole system.

Accordingly in the autumn of 1921 the Government capitulated and consented to give up the distribution of grain and the artificial cheapening of bread and flour, the chief props of its working system, and permitted the resumption of private management, free competition and unrestricted enterprise. For the transition period alone flour was still made cheaper for the really poor, but the sum required for this purpose must not exceed 600 million kč. for the period between the 1st of September and the 31st of August 1922. This amount, however, will not be exhausted, for the removal of control and the reappearance of unrestricted competition will lower prices and will enable better flour to be supplied than that of the Government.

68. The collapse in the sugar trade also led to the removal of Government control of that article. Unrestricted trade reduced the price of sugar within the country by 15 per cent. The State receives 50 per cent. of the export profits, while of the remainder the beet-growers—who have, it is true, reduced the price of beet from 26 to 20 kč. per 100 kg.—receive 43 per cent. and the sugar manufacturers 7 per cent.[1] As the result of private enterprise business is developing in the most gratifying manner.

[1] No profit accrued to the State from the sale of sugar owing to the fact that prices fell on the world market and there were big stocks on hand; thus exports resulted in losses.

One after another the control offices have been abolished; the Spirit Control Office—the only one left—is now being wound up and will have disappeared by next season.[1]

Thus in the third year since the Armistice Czechoslovakia freed herself from the economic trammels imposed by the war, and this unrestricted trade was cordially welcomed by all classes of producers, the working classes not excepted. It was also welcomed by consumers, who realize that free competition improves the quality of goods and gradually reduces prices.

The abandonment of the system of State control hitherto existing has removed the cause of instability in the budget, and the Government, freed from commercial anxieties, is now in a position to devote itself to the task of completing, improving, and extending its work within its own sphere of activity.

II

GOVERNMENT UNDERTAKINGS

69. The system of government of the Czechoslovak Republic embraces—and will continue to do so—not only administrative work proper but also the conduct of various undertakings. Thus the Government has in its hands a widespread system of State railways, the monopoly of the postal, telegraph and telephone services, the State mines and smelting works, the State landed properties, various industrial undertakings, the tobacco and coinage monopolies, and the State spas.

70. The railways are the largest Government undertaking. Czechoslovakia possesses in all 13,127 kilometres of railways. The State actually owns 7,932 km. of line and manages the traffic on the sections of the Košice–Bohumín railway and its local lines, 733 km. in length, and on local railways 3,512 km. in length, so that in all it controls the traffic on 12,178 km. of

[1] No decision has as yet been taken on what is to become of the Spirit Control Office, nor have prices for the last season been fixed as yet. Prices having fallen on the international market and there being stocks of about 300,000 hl., great prudence must be used in order to avert heavy losses to the State.

railway. The railways under private management are as follow: the Buštěhrad line, 422 km. in length; the Ústí–Teplice line, 253 km. in length, and a number of other lines of a local character. The State therefore has in its hands 92·77 per cent. of all the railways, so that it practically possesses a monopoly of them. This monopoly has the faults of all monopolies and results in the elimination of competition. The railway system actually owned by the State labours under a further disadvantage: it is overstaffed throughout, while the administration lacks commercial initiative and is the victim of political influence. Any profits that may accrue are absorbed in the general revenue of the State, no consideration being paid to such matters as the amortization of the plant, &c., the formation of funds for renewals and new construction, &c., because the State, if its undertakings need money, either lends it itself or pays the deficit out of the general revenue. The employees, following the example of the civil service, insist on the Government recognizing their engagement as permanent and not subject to termination. Hence at times when the freight situation tends to become unfavourable the management cannot reduce its expenditure on staff to an extent corresponding to the diminished goods traffic. The absence of businesslike calculation in the efforts made to obtain good returns stamps such an undertaking as a mere bureaucracy. Moreover, the State railways are handicapped in another way. They are unable to allocate their expenditure for plant, &c., at the low prices of foreign competitors, because such procedure is politically unfeasible. The contractors to the State railways know this perfectly well and consequently the railways purchase at prices higher than would be paid by private undertakings. The State railways in Austria have already had full experience of all these disadvantages, and hence they were not even able to pay interest on the capital invested, to say nothing of providing for amortization.

71. Both in Germany and Austria the nationalization of the railways was carried through ostensibly as the fulfilment of the demands and views of State Socialism, but in reality

it was dictated in both countries by the requirements of the military and political situation. The Governments wished to have the railways in their hands for military reasons—not only that they might be in a position to give employment in this large undertaking to time-expired soldiers and non-commissioned officers and thus win popular sympathy for military service, but also that they might be at liberty for strategic reasons to construct sections of line commercially unremunerative and unjustifiable

These strategic railways—in Galicia directed against Russia and in the Tirol and the coastal districts against Italy—made heavy calls on working capital and traffic receipts. Since it was not possible to raise the tariffs without the approval of the two Parliaments, which were opposed to such increases in the interests of trade and industry, the Austrian State railways showed a deficit and could not even pay 4 per cent. interest on the capital invested.

72. The railways were handed over to the Czechoslovak Republic in a miserable condition, as neither the permanent way nor the rolling stock had been maintained in a good state of repair during the war. Carriages, &c., taken in battle were of course held as spoils of war, and in this way the rolling stock became much depleted. The losses thus incurred could only be made good—and that to an inadequate extent—by the use of Belgian stock, which had to be returned after the Armistice. The rolling stock of the Austro-Hungarian State railways has so far not been allotted by the Reparation Commission to the States to which portions of the railways have been awarded. No other course was open therefore but to make good the deficiency in rolling stock and put the permanent way in order at the cost of the Republic, regardless of what the future distribution of the rolling stock might be. By dint of strenuous work Czechoslovakia was able to bring the railways to such a level that full traffic could be maintained.

73. The productive expenditure involved would not have been justified had the railways, even when working to their full capacity, shown a deficit, and it was therefore decided to

increase the tariff for passenger traffic. On the 1st of July 1919 the third class fares were increased by 50 per cent., the second class by 66 per cent., and the first class by 100 per cent. On the 1st of June 1920 a new tariff was introduced with a graduated scale of fares favouring long-distance travelling. For distances up to 250 km. (roughly 156 English miles) the fares were increased by 50 per cent. For distances over 250 km. there was a reduction on this increase, while it ceased to be effective on journeys up to 800 km. ; and the fares for distances over 800 km. were actually cheaper under this revised tariff.

The increase of the tariff was far more drastic in the case of goods traffic. From the 1st of July 1919 the rates for goods and coal were increased by 100 per cent., and these rates were further increased as from the 16th of May 1920 for goods by 100 per cent. and for coal by 150 per cent.

These tariff increases were intended to cover working and maintenance expenses when the railways were working at full capacity ; but they were unable to work to that extent owing to the commercial crisis. The increases proved insufficient also because the expenditure on staff could not be reduced proportionately owing to the permanent position of the employees, and, indeed, had to be increased owing to the fall of the krone. Strenuous efforts are now being made to get rid of superfluous staff and to introduce a system of saving which will abolish many unbusinesslike arrangements which obtained a footing during the war.

74. Beside the increase in the tariff the freight tax was increased from 15 to 30 per cent. This tax is intended to be devoted to productive (fixed capital) expenditure and has been thus employed. Moreover, shares in a loan for productive purposes have been issued and are payable when waggons are assigned to private undertakings.

75. The Czechoslovak railways will have important work to do not only in regard to transport within the country but also in the way of ' through ' traffic. Under the Peace Treaties Czechoslovakia is given the opportunity of establishing a free depot in Hamburg and of transporting goods on the navigable

Elbe and Moldau as far as Prague. On this route there are also facilities for transhipment at Ústí n/L, Mělník, and Kolín, while there will soon be such facilities at Pardubice as well. The Republic has also constructed harbours on the Danube at Bratislava and Komárno and it will fall to the State railways to provide for this through traffic between the Elbe-Moldau and the Danube shipping routes.

The shipping system will not be managed by the State but by two joint-stock companies in which the State is a shareholder. One company carries on its activities on the Elbe and the Moldau, the other on the Danube. The State railways will thus form the connecting link between these two navigable rivers.

76. Another important task for those in charge of the State railways is that of devising better methods of traffic and of constructing the sections of line necessary to make the whole system more adapted to the present needs and configuration of the Republic. The State and private railways in Austria were so built that they gravitated towards Vienna and via Vienna towards Trieste, while the Hungarian lines were concentrated on Budapest. It will fall to the authorities of the Czechoslovak State railways to supplement existing sections by connecting lines on either side so that the railway system shall fulfil all the requirements of internal traffic. It is obvious that this programme will be very heavy and will demand large expenditure. Under the Peace Treaties the Republic is under obligation to purchase the State railways by a payment to the credit of the Austrian and Hungarian Reparation Fund. The amount of such payment has not yet been determined, and, until it is known, the financial position of the railways is to a certain extent a matter of guesswork, much to the detriment of a businesslike working of the system.

77. The postal, telegraph and telephone services, also a State monopoly, show a credit balance, although they make considerable demands for productive expenditure, especially for purposes of international communication. The telegraph and telephone services suffered heavily during the war owing

to the appropriation of all copper material, such as copper wire and copper parts, for the production of munitions. Substitute material was utilized to replace the deficiencies, but it proved quite unsatisfactory and had eventually to be got rid of entirely. In order to provide the requisite funds for this productive expenditure a forced telephone loan was issued to which every telephone subscriber was obliged to subscribe. Attached to the Post Office is the Postal Cheque Office to which I have referred in Part I.

78. The State mines showed varying results :

	kč.	*kč.*
Lignite mines at Most	37 million	
Radium mines at Jáchymov	2·7 „	
Mineral oil mines at Gbel	26·5 „	
Salt mines at Solnohrad	8 „	
Iron ore mines at Rožnava	2·9 „	
Copper refinery at Báňská Bystrica	0·8 „	
Iron works at Tisovce	1·75 „	
Iron works at Podbrezové and Hronec	48·5	128·15 million
The lead and silver works at Příbram showed a deficit of	4 „	
The lead, silver, gold, copper, and antimony mines and smelting works in Št'ávnica, Magurka, Zlatá Ida showed a deficit of	22·5 „	
The gold and silver mines at Kremnice showed a deficit of	5·5 „	32 „
So that the estimated yield was		96·15 „

In my opinion there is a great future before the salt mines of Solnohrad, the naphtha mines in Gbel, and the radium mines at Jáchymov. Naphtha may also be worked by private concerns. The largest of such engaged in the exploitation of naphtha in Slovakia is a company under joint management, the State owning 51 per cent. of the shares and the Standard Oil Company 49 per cent.

The remaining State mines will not be able to face the competition of private undertakings as soon as normal conditions return and prices fall. When it is remembered that all the precious metal mines showed a deficit in spite of the fact that gold and silver had risen in price, and are at an

enormous premium as compared with paper money, it will at once be recognized what a huge deficit these mining ventures will show as soon as this premium has disappeared. The profits of these mines are of practically no importance in the budget as a whole.

79. The State spas—the radio-active baths in Jáchymov and the hydropathic establishments in Tatranská Lomnice, Štrbské Pleso, Lubochna, Slijač Herlany, and Smrdžonka—show a deficit.

The State lands and forests, together with those accruing under the Peace Treaties, yield about 123,000,000 kč.

80. The tobacco monopoly is a State undertaking of considerable importance, for it contributes handsomely to the revenue both in the form of profits arising from the consumption of and also of taxation on the sales of tobacco in a variety of forms. The State buys tobacco itself, manufactures it in factories, and sells it by the agency of persons licensed to sell wholesale and retail. The turnover of this undertaking may be seen from the following figures:

	kč.	
Purchase of tobacco abroad	720	million
Purchase of tobacco at home	18	,,
Cost of production	214	,,
Expenses of management	18	,,
Total expenditure	970	,,
Sale of tobacco at home	1,700	,,
Net profit	730	,,
In addition, revenue from by-products, e. g. waste, sales abroad and the like	5	,,
Total yield	735	,,
Deduction for amortization and productive expenditure	17	,,
Leaving a balance of	718	,,

I will deal with the budget results in the next chapter. The yield of the tobacco monopoly covers 9 per cent. of the entire expenditure of the State and constitutes therefore a very considerable part of the country's revenue. Under the régime of the former Monarchy the population had already become accustomed to the monopoly sale of tobacco produced in certain

regularly manufactured brands, so that the monopoly authorities do not need to turn out more than a few varieties of cigars, cigarettes, smoking tobacco, snuff, and cigarette tobacco. This admits of mass production, the distribution of the manufacture of individual varieties among individual factories and, at the same time, specialization of labour.

In consequence of the blockade and the lack of foreign bills during the war there arose a shortage of raw material, and the Government was obliged to restrict production and sales and allow smokers only a small ration of tobacco, &c., each week. Yet eventually the stocks were sold out, and after the Armistice the Tobacco Régie found itself with empty warehouses and a diminished number of workers familiar with the processes of manufacture. It then became necessary to purchase tobacco and to instal new machinery for the manufacture of cigarettes in order to effect a saving in wages and increase efficiency. The restrictions on the distribution of tobacco, &c., introduced during the war were, it is true, retained, but by degrees the quantities distributed were increased. By the 1st of September 1921 machinery had been provided and supplies so far made good that it was possible to permit the unrestricted sale of tobacco manufactures. Sales increased to such an extent that the monopoly authorities had to engage 3,000 additional workers and were compelled to prolong the working hours in order to cope with the demand. Judging by all these signs it is to be anticipated that there will be an immensely increased yield of the tobacco monopoly. In view of the cheapening of tobacco on the world's markets, the fall of the Bulgarian lei, the Greek drachma and the Turkish pound, and also in view of the increasing familiarity of the workers with the processes of manufacture, the yield in 1922 should reach the figure that it ought to reach, viz. a 100 per cent. net profit yield which would correspond with the tax imposed upon tobacco manufactures if produced by private concerns. From the data given it is clear that the tobacco monopoly will constitute one of the largest and most constant sources of revenue.

III

TAXES, GENERAL DUTIES, CUSTOMS DUTIES, AND MONOPOLIES

81. No important changes have been made in the system of taxation compared with that obtaining before the war, because the economic life of the country was too unstable and it was so difficult fully to appreciate the individual economic facts. The system hitherto existing, with which all were familiar, has therefore been retained with certain adjustments and additions. This system may be briefly summarized as follows :

I. *Direct taxes,* comprising :

(*a*) Taxes on real estate, &c. :

1. Land tax.
2. Graduated house tax.
3. Tax on house rent.
4. Five per cent. tax on buildings exempt from the tax on house rent.

(*b*) Personal taxes :

1. General tax on earnings.
2. Tax on the earnings of pedlars and itinerant dealers.
3. Tax on the earnings of undertakings required to publish accounts.
4. Tax on incomes from investments.
5. Income tax.
6. Tax on higher salaries.
7. Tax on royalties.
8. War tax.
9. Tax on property (in Slovakia).
10. Tax on mines.
11. Tax on fire-arms and shooting licences (in Slovakia).

II. *Indirect taxes ;*

(*a*) Taxes on consumption :

1. Tax on spirits.
2. Beer tax.
3. Sugar tax.
4. Tax on mineral oils.
5. Tax on matches, &c.
6. General tax on beverages.
7. Special tax on bottled wine.
8. Meat tax.
9. Tax on other comestibles.
10. Tax on turnover and luxury tax.

(*b*) Taxes on production :

1. Coal tax.
2. Tax on water-power.

III. Duties :

1. Stamp duties.
2. Courts of Justice fees.
3. Valuation duties.
4. Railway duties :
   - (*a*) On passengers' tickets.
   - (*b*) On goods freights.
   - (*c*) On conveyance of luggage.

IV. Customs duties.

V. Monopolies :

1. Tobacco.
2. Salt.
3. Sweetening materials (saccharine).
4. Explosives.
5. State lottery.

Of these taxes and duties the tax on higher salaries has been abandoned. Of the indirect taxes the following are new : the general tax on beverages, the special tax on bottled wine (these being luxury taxes), the tax on turnover and the 10 per cent. luxury tax, the coal tax, and the water-power tax. Among the monopolies, that in explosives is new. With regard to the other

taxes, with the exception of the tax on house rent, post-war supplementary charges have either been introduced or increased in order that the taxes might be assimilated to the depreciation of money.

82. In arriving at a verdict on the reliability of the estimates it is of importance to ascertain whether the anticipated revenue has actually been collected, or only to a greater or less extent. Subjoined are tables showing the yield anticipated in the various tax categories for 1919, 1920, and nine months of 1921, and the actual yield in million Czech kronen.

Direct taxes I. (*a*), (*b*)	*Estimated yield*	*Actual yield*	*Surplus*
1919	598	745	156
1920	822·5	1,206·7	384·2
1921 (Jan.–Sept.)	743·7	1,180·1	436·4
	2,164·2	3,131·8	976·6

In direct taxes alone therefore in the period from the 1st of January 1919 to the 30th of September 1921 the yield was larger by nearly a third than had been anticipated.

Indirect taxes, viz. taxes on consumption:	*Estimated yield*	*Actual yield*	*Surplus or deficit*
1919	361·5	428	+ 66·5
1920	664	576	— 88
1921 (Jan.–Sept.)	586	706	+ 120
Total	1,611·5	1,710	+ 98·5
Coal tax:			
1920	800	906	+ 106
1921 (Jan.–Aug.)	800	1,075	+ 275
Total	1,600	1,981	+ 381
Tax on turnover:			
1920	1,800	449	— 351
1921 (Jan.–Aug.)	786	835	+ 49
Total	1,585	1,284	— 301
Duties:			
1919	162·3	234	+ 71·7
1920	278·5	606	+ 327·5
1921 (Jan.–Sept.)	307·5	771	+ 463·5
Total	748·3	1,611	+ 862·7

Indirect taxes viz. taxes on consumption:	*Estimated yield*	*Actual yield*	*Surplus or deficit*
Customs duties:			
1919	53·5	149	+ 95·5
1920	171	362	+ 191
1921 (Jan.–Aug.)	127	409	+ 282
Total	351·5	920	+ 568·5
Gross revenue of monopolies:			
1. Tobacco:			
1919	467	316	— 151
1920	779	1,060	+ 281
1921 (Jan.–Aug.)	920	1,262	+ 342
Total	2,166	2,638	+ 472
2. Salt:			
1919	16·2	13	— 3·2
1920	16	28	+ 12
1921 (Jan.–Aug.)	10·6	12	+ 1·4
Total	42·8	53	+ 10·2
3. Sweetening agents (saccharine):			
1919	10	14	+ 4
1920	12	38	+ 26
1921 (Jan.–Aug.)	26	6	— 20
Total	48	58	+ 10

The decline of the revenue from saccharine in 1921 was due to the fact that in the course of that year the sugar ration was increased, which caused an immediate falling off in the consumption of artificial sweetening agents.

83. A survey of the yield of these sources of revenue shows that for the period from the 1st of January 1919 to the 30th of September (in some cases the 31st of August) 1921 the revenue estimated and actually received was as follows in million Czech kronen:

	Estimated yield	*Actual yield*	*Increase or decrease*
Direct taxes	2,155·2	3,131·8	+ 976·6
Indirect taxes on consumption	1,611·5	1,710	+ 98·5
Coal tax	1,610	1,981	+ 381
Tax on turnover	1,586	1,284	— 302
Duties (general)	748·3	1,611	+ 862·7
Customs duties	351·5	920	+ 568·5
Tobacco monopoly	21·66	26·38	+ 472
Salt monopoly	42·8	53	+ 10·2
Sweet-stuffs monopoly	48	58	+ 10
Total	10,309·3	13,386·8	+ 3,077·5

The tax on turnover is the only one of which the yield was less than was anticipated. This tax was a new tax of 1 per cent. on every sale and on the cost of every piece of work done and every personal service rendered. The tax called for a widespread organization, which was not forthcoming in time. The smaller yield of the tobacco monopoly in 1919 is explained by the Bolshevik invasion of Slovakia.

84. A survey of the budgets for 1919, 1920, and 1921 shows that the deficits which should have been covered by loans—apart from the expenditure for productive purposes—were as follows in million Czech kronen :

1919	4,900
1920	2,240
1920 (supplementary) . .	1,129
1921	3,800
Total	12,069

The total loans contracted to meet these deficits were as follow, in million Czech kronen :

1. Liberty loan	500
2. 4 per cent. Treasury bills, nominal	1,048
3. 4½ ,, Premium loan, nominal	540·8
4. 5 ,, Treasury bills, nominal	952·8
5. Government bonds	1,536
6. Government loan, nominal	1,500
7. Currency loan	250
8. Subscribed on loan to cover the flour deficit . .	2,200
Total amount of loans issued to cover the deficits .	8,527·6
To these must be added the American foodstuffs credit which amounted to 63·3 million dollars. The foodstuffs were sold at the then average exchange rate of 18 kč. for 1 dollar. The amount received by the Treasury was	1,143
So that the total amount of the deficits covered by loans was	9,670·6 million

Accordingly a sum smaller by 2,398·4 million kč. was or is being borrowed than was sanctioned by the Finance Acts, so that the actual deficit of the balance for three years was 9,670·6 million kč. Reckoned in dollars at the exchange rate of 90,[1]

[1] Shortly before going to press, a strong rise in the exchange rate of the Czech krone has set in. On the 6th of October 1922 it was quoted at Zürich at 18·22 francs. At Prague the dollar stood at 29 ; the pound sterling at 130 ; the lira at 1·25 ; the

the debt amounted to 107·35 million dollars.[1] In view of the depreciation of the currency and of the fact that this deficit for 1920 includes 1,600 million kč. for productive expenditure, the deficit is reduced to 8,000 million kč. In view of post-war difficulties this is most certainly a satisfactory result, and the efforts to make the budget balance will be crowned with success if the economies contemplated are consistently carried out.

IV

THE NATIONAL DEBT

85. In order that the budget may be stabilized and the economic system given every opportunity of development during the next few years, it is necessary to ascertain the debts which the Republic owes and will owe under the Peace Treaties. With a view to giving a survey of these debts we may divide them into the three following categories :

1. *War debts* arising from the war and the struggle of the nation for independence.

2. *Debts* contracted by the Republic for its own expenditure and organization.

3. Austrian and Hungarian *pre-war debts* and indemnifications for State properties to be paid by the Republic under the Peace Treaties.

I. War Debts of the State

86. The position of the Czechoslovak nation during the war was exceptionally difficult. The country was part of Austria-Hungary, and her sons were driven to the front to fight for the victory of the Central Powers. Such a victory would mean a further and possibly permanent subjection of the Czechoslovak nation and its absorption by the Hungarians and Germans. All those who were outside the frontiers of the

French franc at 2·22. The amounts given in the following foot-notes are based on these quotations.

[1] 333·47 million dollars.

Central Powers took up arms to win freedom for their nation, and at the same time to assist in defeating Germany and Austria. These foreign armies were of course maintained at the cost of the Czechoslovak nation, and later of the Republic. It is necessary therefore, in the first place, to ascertain how much Austria-Hungary had demanded from the population for her campaigns.

(*a*) In discussing the Austro-Hungarian Bank I have made it clear that in reality its entire actual and possible circulation was a war debt. The Republic was compelled to take over this war debt, in so far as it was held by its nationals in its own territory, as a result of forced circulation. The State therefore took over

	kč.		*kč.*	
Bank notes in circulation			8,000	million
Banking accounts			1,616·8	,,
Treasury bills			467·5	,,
			10,084·3	,,
Of this sum the amount exchanged for State notes was	6,987	million		
The sum retained as a 1 per cent. loan repayable from the property tax being	3,097·3	,,		

(*b*) Although the Czechoslovak Republic was not under an obligation to redeem the war loans, it did so in the case of the fourth loan, and recognized the loan as its own debt provided the owner of war loan stock subscribed an equal amount to the new loan of the Republic. Accordingly up to the present Austrian and Hungarian war loans have been acknowledged to the amount of . . . . . 1,500 ,,

(*c*) In consequence of the blockade of Germany and Austria by the Allies the territory of the Czechoslovak Republic was drained completely dry and was threatened by famine and deaths from starvation. Austria-Hungary had completely plundered Czechoslovak territory for the maintenance of her army and Vienna. The American Government hastened to the assistance of Czechoslovakia and sent the Government grain, fats, and canned goods to the value of 63 million dollars, which the Republic sold to the people at the exchange rate of 18 kč. to 1 dollar then current, and in this way realized 1,143 million kč. on account of these foodstuffs. On this loan the Republic will pay 5 per cent. interest, which will require a sum of 3,150,000 dollars per annum. Should the exchange rate of the dollar remain at 90 kč. this yearly

Forward 11,584·3 ,,

	kč.	
Forward	11,584·3	million
interest will amount to 283·5 million kč.[1] or 24·8 per cent.[2] of the sum realized for these foodstuffs, and expressed in Czech kronen the debt at to-day's rate of exchange (90) would amount to	5,670	,,[3]
that is, on the supposition that the United States, which so generously rendered assistance, may not be satisfied with the exchange rate obtaining when the loan was accepted, in view of the fact that the Republic, if it desired to help its population, was unable to sell at higher prices than those obtaining at the time, and also in view of the fact that it was beyond the power of the Republic to maintain the exchange rate at the level of from 18 to 20 because of the general disorganization caused by the war, the pressure exerted by Russia, the economic disturbance in Austria and Germany, and Bolshevism in Hungary.		
(*d*) For the same reasons the credit grant from the British Government, amounting to £417,431 (for soap, fats, freights for American wheat, &c.) bearing interest at 6 per cent., should come under this head. The goods were sold at the rate of exchange then ruling of 72 kč. to £1, so that the Government realized 30 million kč. The 6 per cent. interest amounts to £25,044 or, at an exchange rate of 390 kč. to £1, to 9,767,160 kč.[4] or 32·6 per cent.[5] of the 30 million kč. realized; and if this debt were now paid in kronen it would amount to .	162·8	,,[6]
Total	17,417·1	,,[7]

87. This sum will be still further increased unless certain deductions are made when the sum the Republic is called upon to pay to the Reparation Fund for the railways and other State property is fixed. These deductions would be in respect of the misuse of this property during the war—e. g. failure to repair the permanent way and to keep the rolling stock in condition—and in respect of the negligent working of the State mines. Moreover, the sums which Austria-Hungary still owes to Czechoslovak nationals for deliveries of war material, grain, &c., to the value of at least 1,000 million kč., should also be taken into account to arrive at a proper balance. I leave out of consideration the large amounts paid out of the current State revenue for the support of those injured in the war and also the vast expenditure occasioned on account of transport and maintenance after the collapse of the Italian front.

[1] 91·35 million kč. [2] 8 per cent. [3] 1827 million kč.
[4] 3,255,720 kč. [5] 9·2 per cent. [6] 54·3 million kč.
[7] 13·465 million kč.

88. The war debts in the second category were occasioned by the maintenance of the Czechoslovak armies during the war, i. e. by the struggle for independence, and consist of the following items:

(*a*) The loan granted by the United States to President Masaryk:

For the establishment of the Siberian army	5	million dollars
For the maintenance of the Siberian army	19·3	„ „
For repatriation	5·5	„ „
Total	29·8	„ „
		kč.
Or, at an exchange rate of 90 kč.		2,682 million [1]
(*b*) The Republic's debt to Italy for the maintenance of the Czechoslovak armies amounting to 180 million lire, or at an exchange rate of 3·80 kč.		684 „ [2]
(*c*) The Republic's debt to France for the maintenance of the foreign armies amounting to 128,152,226 francs, or, at the exchange rate of 6·50 kč.		834 „ [3]
(*d*) The Revolution Loan of the Czechoslovak armies in Russia, amounting to 7·2 million francs, or		46·8 „ [4]
(*e*) Payments to the Liberation Fund as contribution to the war expenditure of the United States for the struggle for Czechoslovak independence, amounting to 750,000,000 gold francs, or at the present rate of 17 kč.		12,750 „ [5]
So that Czechoslovakia's own expenditure for the struggle for liberty amounted to		16,996·8 „ [6]

89. To this sum must be added the value of the property of the States of Austria and Hungary and of that of members of the ruling House. Payment of the respective amounts will go to the Reparation Fund of the Austro-Hungarian war indemnity. These amounts will in reality be war indemnities in so far as payment for the property in question, for the railway rolling stock and for other items is met out of current State revenue and by taxing the population. Inasmuch as these properties had already been paid for out of taxes collected from actual Czechoslovak nationals, this second payment to the Reparation Fund represents a payment without an adequate equivalent, and is consequently a war indemnity. It is true that from this sum will be deducted the amount received by

[1] 864·2 million kč. [2] 225 million kč. [3] 285·1 million kč.
[4] 16 million kč. [5] 4·125 million kč. [6] 5,515·3 million kč.

the Czechoslovak Republic from the reparations payable by Germany and Austria. The amount of these, however, has not yet been settled either as regards their total or as regards the share appertaining to Czechoslovakia, so that the precise figures of the debt arising under this heading cannot be determined. Similarly it is impossible to fix with any degree of precision the amount of Russia's claim for the maintenance of the armies.

90. Already it is clear, however, that with the debts contracted on account of the war waged by Austria-Hungary and with her own debts due to the struggle for independence, the Czechoslovak Republic is burdened with an aggregate debt of 34,413·9 million kč.,[1] which at the exchange of 90 kč. to 1 dollar is equal to 382·38 million dollars.[2] Of this debt the sum of fr. 6·54 million has been repaid out of current revenue on the Revolution Loan raised in Russia, mainly to Czechs who were domiciled in Russia but had fled to Europe, and to the legionaries who had subscribed to the loan, so that this debt has been reduced by

	kč.	
	41·83 million	[3]
Up to the end of November 1921 repayment of the bank note (State note) debt had been made out of the property tax to the extent of	591	,, [4]
So that the debt has been reduced by	632·83	,, [5]

91. The improvement of the exchange rate of the Czech krone will naturally reduce these debts in so far as they are expressed in foreign currencies, and will also reduce the interest payable. The debts in kronen (with the exception of the State-notes debt) will be intrinsically higher—although in figures they will remain the same—while the burden of interest will become more oppressive. Bearing in mind that Austria-Hungary spent kr. 101,940 million on the war, Czechoslovakia's war debt of 34,413·9 million kč. works out at 34 per cent., although only 26 per cent. of the inhabitants of the former Austria-

[1] 18,970·9 million kč. [2] 550·16 million dollars. [3] 14·55 million kč.
[4] Up to end of September 1922, 1,683 million kč. [5] 1,697·55 mililon kč.

Hungarian State lived in Czechoslovak territory, while their taxation assessment was 28 per cent. of the whole. These figures show why Czechoslovakia refuses to pay the Austrian and Hungarian war debts further than she is compelled to do by the terms of the Peace Treaties.

II. State Debts on Account of Ordinary and Productive Expenditure

92. The debts incurred by the Republic cannot be divided accurately between ordinary and productive (invested capital) expenditure until the final statements of accounts have been completed. It may be mentioned that many new items of productive expenditure have been incurred for social and intellectual objects—expenditure denied by Austria and Hungary to the Czechoslovak nation—which will bring in no return, but would in normal times be covered by annuities spread over a number of years. Moreover, in view of the uncertain conditions in Russia and Central Europe the Republic was obliged to prepare herself for any emergency.

93. If then we divide the debts into internal and external, specifying in each case the object for which the debt was incurred, we obtain the following survey :

A. *Internal Debts*

	kč.	
(*a*) The 4 per cent. Liberty Loan (Půjčka národní svobody) issued on the 5th of November 1918, to meet the expenses of demobilization and the budget deficits of 1918, one half repayable on the 1st of December 1922, the other half on the 1st of December 1923	1,000	million
(*b*) 4 per cent. Treasury bills, to cover the budget deficit . . (528·75 million kč. repayable on the 1st of October 1923) (519·31 „ „ „ „ „ 1924)	1,048	„
(*c*) 4½ State Premium Loan, to cover the budget deficit . . (Redeemable in 35 years from 1926 to 1960 ; two drawings yearly with premiums up to 25 per cent. of the nominal amount.)	540·8	„
(*d*) 5 per cent. Treasury bills, to cover the budget deficit, repayable on the 1st of July 1924	952·8	„
(*e*) Treasury bonds, to cover deficits, issued in each case for three months, interest payable at the rate of discount of the Banking Department	1,536·2	„
Forward	5,077·8	„

	kč.	
Forward	5,077·8	million
(*f*) Fourth Government Loan, with participation in war loans (half of this appears among the war debts) to cover deficits . (Interest 3½ per cent. to 6 per cent., partly in permanent annuities, partly redeemable in 45 years from 1935 to 1979.)	1,500	,,
(*g*) 6 per cent. Treasury bills, to cover the expenditure caused by the invasion of Slovakia by the Hungarian Bolsheviks in June 1919 . . . . . (Repayable on the 1st of July 1924.)	677·3	,,
(*h*) 5½ per cent. bonds for the supply of the most urgent military requirements . . . . . (Repayable in 1922 out of the money saved in the budget of the Ministry of National Defence.)	322	,,
(*i*) 2 per cent. Premium Loan of 1,000 million kč. for the promotion of building and remedying the house shortage; hitherto subscribed . . . . . (This is destined in part for productive purposes in so far as houses for civil servants are provided. Drawings for 25 years from 1st February 1922 to 1946.)	25	,,
(*k*) 3½ per cent. Currency Loan, to provide a specie reserve for the Bank of Issue . . . . . (The loan is repayable with interest in 1923.)	250	,,
(*l*) 6 per cent. Productive Loan for the railways, telegraphs, and telephones . . . . . (Repayable in instalments from the 1st of December 1926 to 1946.)	470	,,
Total	8,322·1	,,

B. *External Debts*

(*a*) Credit from the French Government for army horses for the military authorities Fr. 1,149,212 at 6·5 kč. . . .	7·47	million
(*b*) Mark credit for productive expenditure on waggons: Mk. 125 million, payable 20th January 1922 at the present exchange of kč. 0·42 to the mark, 52·5 million		
(*c*) Mark credit for the same purpose: Mk. 100 million, payable 9th of March 1922, Mk. 50 million 22nd of March 1922, ,, 50 ,, at the present exchange of kč. 0·42 to the mark, 42 million The mark credits under (*b*) and (*c*) were properly an advance draft on the productive loan mentioned under A. (i), and it will be practically and completely paid out of that loan, for which reason I do not specify the two mark credits here.		
(*d*) Credit from the British Government for flour: £2,000,000 at the present exchange of 390 kč. . . . . (Interest 1 per cent. over the Bank of England rate—at present 6½ per cent.—repayable during March 1922.)	780	,,
Total external debt	787·47	,,
Internal debt	8,322·10	,,
Total	9,109·57	,,

Besides these debts, there has been put on the market a flour loan of 2,200 million kč. in connexion with pre-war annuities.[1]

III. Share in the Pre-War Debt

94. The amount of the pre-war debt was

	kč.
of Austria	12,807 million
of Hungary	7,892 ,,
of Bosnia-Herzegovina . . .	243 ,,
Total	20,942 ,,

In accordance with Article 203 of the Peace Treaty of St. Germain and the corresponding Articles 182 and 186 of the Peace of Trianon, these debts are apportioned among the States which have received territory of the former Austro-Hungarian monarchy. The text of Article 203 is as follows:

Article 203

1. Each of the States to which territory of the former Austro-Hungarian Monarchy is transferred, and each of the States arising from the dismemberment of that Monarchy, including Austria, shall assume responsibility for a portion of the debt of the former Austrian Government which is specifically secured on railways, salt mines, or other property, and which was in existence on the 28th of July 1914. The portion to be so assumed by each State shall be such portion as in the opinion of the Reparation Commission represents the secured debt in respect of the railways, salt mines, and other properties transferred to that State under the terms of the present Treaty or any treaties or agreements supplementary thereto.

The amount of the liability in respect of secured debt so assumed by each State, other than Austria, shall be valued by the Reparation Commission, on such basis as the Commission may consider equitable, and the value so ascertained shall be deducted from the amount payable by the State in question to Austria in respect of property of the former or existing Austrian Government which the State acquires with the

[1] The State has also contracted a British investment loan of £10,000,000, out of which the first instalment of £6,000,000 has been realized. Out of that, £1,000,000 of the British flour loan was paid off. The loan bears 8 per cent. interest and is redeemable by annuities over 25 years; it may be repaid in full after 10 years, at a rate of 110 per cent. Every week $\frac{1}{52}$ of the annuity is remitted out of the proceeds of the tobacco monopoly.

territory. Each State shall be solely responsible in respect of that portion of the secured debt for which it assumes responsibility under the terms of this Article, and holders of the debt for which responsibility is assumed by States other than Austria shall have no recourse against the Government of any other State.

Any property which was specifically pledged to secure any debt referred to in this Article shall remain specifically pledged to secure the new debt. But in case the property so pledged is situated as the result of the present Treaty in more than one State, that portion of the property which is situated in a particular State shall constitute the security only for that part of the debt which is apportioned to that State, and not for any other part of the debt.

For the purposes of the present Article there shall be regarded as secured debt payments due by the former Austrian Government in connexion with the purchase of railways or similar property; the distribution of the liability for such payments will be determined by the Reparation Commission in the same manner as in the case of secured debt.

Debts for which the responsibility is transferred under the terms of this Article shall be expressed in terms of the currency of the State assuming the responsibility, if the original debt was expressed in terms of Austro-Hungarian paper currency. For the purposes of this conversion the currency of the assuming State shall be valued in terms of Austro-Hungarian paper kronen at the rate at which those kronen were exchanged into the currency of the assuming State by that State when it first substituted its own currency for Austro-Hungarian kronen. The basis of this conversion of the currency unit in which the bonds are expressed shall be subject to the approval of the Reparation Commission, which shall, if it thinks fit, require the State effecting the conversion to modify the terms thereof. Such modification shall only be required if, in the opinion of the Commission, the foreign exchange value of the currency unit or units substituted for the currency unit in which the old bonds are expressed is substantially less at the date of the conversion than the foreign exchange value of the original currency unit.

If the original Austrian debt was expressed in terms of a foreign currency or foreign currencies, the new debt shall be expressed in terms of the same currency or currencies.

If the original Austrian debt was expressed in terms of Austro-Hungarian gold coin, the new debt shall be expressed in terms of equivalent amounts of pounds sterling and gold dollars of the United States of America, the equivalents being calculated on the basis of the weight and the fineness of gold of the three coins as enacted by law on the 1st of January 1914.

Any foreign exchange options, whether at fixed rates or otherwise, embodied explicitly or implicitly in the old bonds shall be embodied in the new bonds also.

2. Each of the States to which territory of the former Austro-Hungarian Monarchy is transferred, and each of the States arising from the dismemberment of that Monarchy, including Austria, shall assume responsibility for a portion of the unsecured bonded debt of the former Austrian Government which was in existence on the 28th of July 1914, calculated on the basis of the ratio between the average for the three financial years 1911, 1912, 1913 of such revenues of the distributed territory and the average for the same years of such revenues of the whole of the former Austrian territories as in the judgement of the Reparation Commission are best calculated to represent the financial capacity of the respective territories. In making the above calculation the revenues of Bosnia and Herzegovina shall not be included.

The responsibilities in respect of bonded debt to be assumed under the terms of this Article shall be discharged in the manner laid down in the Annex hereto.

The Austrian Government shall be solely responsible for all the liabilities of the former Austrian Government incurred prior to the 28th of July 1914, other than those evidenced by the bonds, bills, securities, and currency notes which are specifically provided for under the terms of the present Treaty.

Neither the provisions of this Article nor the provisions of the Annex hereto shall apply to securities of the former Austrian Government deposited with the Austro-Hungarian Bank as security for the currency notes issued by the bank.

Annex

The amount of the former unsecured Austrian Government bonded debt, the responsibility for which is to be distributed under the provisions of Article 203, shall be the amount of that debt as it stood on the 28th of July 1914, after deducting that portion which represents the liability of the former Hungarian Government for that debt as provided by the Additional Convention relating to the contribution of the countries of the Sacred Hungarian Crown to the charges of the general debt of Austria-Hungary approved by the Austro-Hungarian law of the 30th of December 1907, B. L. I., No. 278.

Each State assuming responsibility for the old unsecured Austrian Government debt shall, within three months of the coming into force of the present Treaty, if it has not already done so, stamp with the stamp of its own Government all the bonds of that debt existing in its own territory. The distinguishing numbers of the bonds so stamped

shall be recorded and shall be furnished, together with the other records of the stamping, to the Reparation Commission.

Holders of bonds within the territory of a State which is required to stamp old Austrian bonds under the terms of this Annex shall, from the date of the coming into force of the present Treaty, be creditors in respect of these bonds of that State only, and they shall have no recourse against the Government of any other State.

Each State which, under the terms of Article 203, is required to assume responsibility for a portion of the old unsecured Austrian Government debt, and which has ascertained by means of stamping the old Austrian bonds that the bonds of any particular issue of such old Austrian bonds held within its territory were smaller in amount than the amount of that issue for which, in accordance with the assessment of the Reparation Commission, it is held responsible, shall deliver to the Reparation Commission new bonds equal in amount to the difference between the amount of the issue for which it is responsible and the amount of the same issue recorded as held within its own territory. Such new bonds shall be of such denominations as the Reparation Commission may require. They shall carry the same rights as regards interest and amortization as the old bonds for which they are substituted, and in all other respects the conditions of the bonds shall be fixed subject to the approval of the Reparation Commission.

If the original bond was expressed in terms of Austro-Hungarian paper currency, the new bond by which it is replaced shall be expressed in terms of the currency of the State issuing the new bond, and for the purpose of this currency conversion, the currency of the new State shall be valued in terms of Austro-Hungarian paper kronen at the rate at which those kronen were exchanged for the currency of the new State by that State when it first substituted its own currency for Austro-Hungarian paper kronen. The basis of this conversion of the currency unit in which the bonds are expressed shall be subject to the approval of the Reparation Commission, which shall, if it thinks fit, require the State effecting the conversion to modify the terms thereof. Such modification shall only be required if, in the opinion of the Commission, the foreign exchange value of the currency unit or units substituted for the currency unit in which the old bonds are expressed is substantially less at the date of the conversion than the foreign exchange value of the original currency unit.

If the original bond was expressed in terms of a foreign currency or foreign currencies, the new bond shall be expressed in terms of the same currency or currencies. If the original bond was expressed in terms of Austro-Hungarian gold coin, the new bond shall be expressed in terms of equivalent amounts of pounds sterling and gold dollars of the United States of America, the equivalents being calculated on the

basis of the weight and fineness of gold of the three coins as enacted by law on the 1st of January 1914.

Any foreign exchange options, whether at fixed rates or otherwise, embodied explicitly or implicitly in the old bonds shall be embodied in the new bonds also.

Each State which under the terms of Article 203 is required to assume responsibility for a portion of the old unsecured Austrian Government debt, which has ascertained by means of stamping the old Austrian bonds that the bonds of any particular issue of such old Austrian bonds held within its territory were larger in amount than the amount of that issue for which it is held responsible in accordance with the assessment of the Reparation Commission, shall receive from the Reparation Commission its due proportionate share of each of the new issues of bonds issued in accordance with the provisions of this Annex.

Holders of unsecured bonds of the old Austrian Government Debt held outside the boundaries of the States to which territory of the former Austro-Hungarian Monarchy is transferred, or of States arising from dismemberment of that Monarchy, including Austria, shall deliver through the agency of their respective Governments to the Reparation Commission the bonds which they hold, and in exchange therefor the Reparation Commission shall deliver to them certificates entitling them to their due proportionate share of each of the new issues of bonds corresponding to and issued in exchange for their surrendered bonds under the provisions of this Annex.

The share of each State or private holder entitled to a share in any new issue of bonds issued in accordance with the provisions of this Annex shall bear such proportions to the total amount of bonds of that new issue as the holding of the State or private owner in question of the old issue of bonds bears to the total amount of the old issue presented to the Reparation Commission for exchange into new bonds in accordance with the provisions of this Annex. Each such participating State or private holder will also be entitled to its or his due proportionate share of the new bonds issued under the terms of the Treaty with Hungary in exchange for that portion of the former Austrian Government debt for which Hungary accepted liability under the Additional Convention of 1907.

The Reparation Commission shall, if it think fit, arrange with the holders of the new bonds provided for by this Annex a consolidation loan of each debtor State, the bonds of which loan shall be substituted for the various different issues of new bonds on such terms as may be agreed upon by the Commission and the bondholders.

The State assuming liability for any bond of the former Austrian Government shall assume any liability attaching to the bond in respect of unpaid coupons or sinking fund instalments accrued since the date of the coming into force of the present Treaty.

95. It follows from these provisions that the debt to be apportioned amounts to 20,699 million kč. The principles on which the distribution is to be effected have not been established, and it has been left to the Reparation Commission to determine what class of revenue may furnish the best measure of the taxable capacity of the particular territory in question. For this reason it is only possible to estimate the amount of the burden. In Austria the most equitable basis for assessing taxable capacity is furnished by the income tax, and in Hungary by direct taxation as a whole. On this basis the share in the secured and unsecured debt might amount to 4,500 million kč. at most. The fact that the interest on some of the securities is payable in gold (the Austrian and Hungarian gold annuities, and certain bonds of the nationalized railways) would, of course, also have to be taken into consideration. A precise statement is thus rendered impossible. As the Reparation Commission has so far come to no decision of any kind, this amount must remain provisionally indefinite.

96. In accordance with Article 208 of the Peace Treaty of St. Germain and 191 of the Treaty of Trianon, the States shall pay for the property in real estate of the former Austrian or Hungarian Monarchy. The text of these Articles is as follows :

ARTICLE 208

States to which territory of the former Austro-Hungarian Monarchy is transferred and States arising from the dismemberment of that Monarchy shall acquire all property and possessions situated within their territories belonging to the former or existing Austrian Government.

For the purposes of this Article, the property and possessions of the former or existing Austrian Government shall be deemed to include the property of the former Austrian Empire and the interests of that Empire in the joint property of the Austro-Hungarian Monarchy as well as all the property of the Crown, and in the private property of members of the former royal family of Austria-Hungary.

These States shall, however, have no claim to any property of the former or existing Government of Austria situated outside their own respective territories.

The value of such property and possessions acquired by States other than Austria shall be fixed by the Reparation Commission and placed by that Commission to the credit of Austria and to the debit of the

State acquiring such property on account of the sums due for reparation. The Reparation Commission shall deduct from the value of the public property thus acquired an amount proportionate to the contribution in money, land, or material made directly by any province or commune or other autonomous local authority towards the cost of such property.

Without prejudice to Article 208 relating to secured debt, in the case of each State acquiring property under the provisions of this Article, the amount placed to the credit of Austria and to the debit of the said State in accordance with the preceding paragraph shall be reduced by the value of the amount of the liability in respect of the unsecured debt of the former Austrian Government assumed by that State under the provisions of Article 203 which, in the opinion of the Reparation Commission, represents expenditure upon the property so acquired. The value shall be expenditure fixed by the Reparation Commission on such basis as the Commission may consider equitable.

Property of the former and existing Austrian Government shall be deemed to include a share of the real property in Bosnia-Herzegovina of all descriptions for which, under Article 5 of the Convention of the 26th of February 1909, the Government of the former Austrian monarchy paid £ T.2,500,000 to the Ottoman Government. Such share shall be proportionate to the share which the former Austrian Empire contributed to the above payment, and the value of this share, as assessed by the Reparation Commission, shall be credited to Austria on account of reparation.

As exception to the above there shall be transferred without payment:

1. The property and possessions of provinces, communes, and other local autonomous institutions of the former Austro-Hungarian Monarchy, including those in Bosnia-Herzegovina which did not belong to the former Austro-Hungarian Monarchy.

2. Schools and hospitals the property of the former Austro-Hungarian Monarchy.

3. Forests which belonged to the former Kingdom of Poland.

Further, any building or other property situated in the respective territories transferred to the States referred to in the first paragraph whose principal value lies in its historic interest and associations, and which formerly belonged to the Kingdom of Bohemia, the Kingdom of Poland, the Kingdom of Croatia-Slavonia-Dalmatia, Bosnia-Herzegovina, the Republic of Ragusa, the Venetian Republic or the Episcopal Principalities of Trient and Bressanone, may, subject to the approval of the Reparation Commission, be transferred to the Government entitled thereto without payment.

Article 204 of the Treaty of St. Germain and Article 187 of the Treaty of Trianon provide as follows:

ARTICLE 204

1. In case the new boundaries of any States, as laid down by the present Treaty, shall divide any local area which was a single unit for borrowing purposes and which had a legally constituted public debt, such debt shall be divided between the new divisions of the area in a proportion to be determined by the Reparation Commission in accordance with the principles laid down for the reapportionment of Government debts under Article 203, and the responsibility so assumed shall be discharged in such a manner as the Reparation Commission shall determine.

2. The public debt of Bosnia and Herzegovina shall be regarded as the debt of a local area and not as part of the public debt of the former Austro-Hungarian Monarchy.

97. In this matter also the Reparation Commission has so far come to no decision. This delay is dangerous to the Republic, for it is obliged as a good steward to maintain all these properties in good condition, so that it will not be easy to determine the post-war condition of the railways, estates, forests, mines, and spas. The delay also renders the administration of the State properties and domains impossible, and this is most prejudicial, for example, to land reform.

98. A survey of the State's indebtedness gives us the following figures :

	kč.	
I. War debts	34,413·9	million
II. Debts assumed by the Republic	9,119·57	,,
III. Share in the pre-war debt	4,500	,,
So that the indebtedness amounts to	48,033·47	,,
At a dollar exchange of 90 this is equivalent to 533·75 million dollars :		
This debt was diminished by	632·83	,,
So that it amounts to	47,400·64	,,
Or 526·67 million dollars.		

99. In figures the State burden is very considerable, but this is due to depreciation. If it should prove possible to extinguish the bank-note debt by means of the property tax, the State debt would be diminished by 10,000 million kč. Of the balance 9,472·1 million kč.—or, with the share of the pre-war debt, 13,972·1 million kč.—has been contracted in kronen, while the indebtedness in foreign currencies amounts to 22,728 million kč. This comparison suffices to

show that the diminution of this burden will be dependent upon the restoration of the currency. Thus, if the pre-war parity of the currency were applied :

	kč.	
The dollar indebtedness would amount to (Instead of 8,352 million.)	465	million
The debt in gold francs, to (Instead of 12,750 million.)	750	„
The debt in lire, to (Instead of 684 million.)	180	„
The debt in French francs, to	130	„
The debt in English pounds, to (Instead of 942 million.)	48·6	„
So that the debt would be reduced from 22,728 million to	1,573·6	„

The result would be that the State debt would amount to 15,500 million kč., and the interest, at 5 per cent., to 775 million kč.

100. In the matter of the State debt also it is clear that the policy pursued by the Republic, which endeavoured in the first place to maintain order in its currency, was correct, even although it was not entirely successful, and, in view of the policy of its neighbours, could not have been successful. The Republic was like an island, wholly surrounded by States in which the depreciation of money was even greater than in Czechoslovakia. Had the view gained support generally that a grave economic catastrophe was bound to result from the disorganization of the currencies of the belligerent Powers and those of the neutral States ; had steps been taken to remedy this serious condition ; and had the employment of those war-time methods been avoided which consisted in increasing the currency by printing off and issuing bank notes which had no economic basis—then the Czechoslovak Republic, which, among the States affected by the war, was the first to renounce those methods, might have succeeded in consolidating its position to a much greater extent than it has done.[1]

[1] In consequence of the British loan of £6,000,000, the proportion of the debts in foreign currency to those in home currency has been considerably augmented. Progress has been made with the redemption of debts owing to the property tax being employed for the paying off of the State-note debt ; thus there is a decrease in kronen debts.

PART III

ECONOMIC MEASURES

101. Besides the issues already disposed of, the Financial Administration of the Czechoslovak Republic was called on to deal with others requiring early attention and suitable remedies. The measures to be taken were partly of a preparatory nature intended to safeguard the future, and partly of a preventive nature designed to ensure that the State should not be encumbered by burdens which would become disproportionately heavy only at some future time. The following belong to this class :

1. The liberation of the Czechoslovak banking and savings-bank system from Austrian and Hungarian influence.

2. The naturalization of those companies which had previously had their head-quarters outside the territory of the Republic and within that of the former Austrian or Hungarian Monarchy, while their works, on the other hand, had been within Czechoslovakia.

3. The restriction of increase of capital by companies owing to the pressure of currency depreciation.

4. The control of the Stock Exchange with regard to speculation in currency, and the forcing of the price of securities to follow fluctuations in the international rate of exchange of the national currency.

5. The solution of the housing problem.

6. The transition from the restrictions of war economics to freedom of trade and free competition.

I

THE LIBERATION OF THE FINANCIAL SYSTEM

102. The Austrian banking system was centralized in Vienna. In the granting of permits the Government handicapped the provincial banks as much as possible and favoured

both indirectly and directly the development of the Vienna banks—indirectly by preventing the possibility of all competition, and directly by transacting all State business through the agency of these banks. The Government also deposited the surplus of the State finances at a low rate of interest with these banks from time to time, especially after harvest time, and enabled them to compete in offering the seasonal credits required by the sugar, malt, and spirit industries. In this way the Vienna banks were placed in a position to control the industrial undertakings in Bohemian districts so far as credit was concerned.

Steps were taken, however, to resist this encroachment by establishing in Bohemia and Moravia advance or loan offices on the Schulze-Delitsch system for local credits, and with the aid of these offices the first Czech bank, which is now also the principal bank in the country, viz. the Živnostenská Banka, was founded. In addition, the Communes established savings banks, giving depositors the Commune's guarantee. It was in the Kingdom of Bohemia that the first mortgage bank was established under the title Hypoteční banka pro království české (Mortgage Bank of the Kingdom of Bohemia), which issued mortgage bonds on the mortgages raised on land and house property and which enjoyed great popularity. Owing to the Bank's sound management its mortgage bonds were in great demand and were always quoted from 2 to 3 per cent. higher than loans giving the same yield. A similar institution was also founded by Moravia. The Kingdom of Bohemia also established the Zemská banka království českého (Provincial Bank of the Kingdom of Bohemia), the purpose of which was the granting of credits to Communes and railways for improvement schemes and to small financial institutions by the discount of bills. Its communal and railway improvement bonds were likewise very popular with the public owing to the Bank's careful management and sound principles of issue. Moravia also founded an institution on analogous lines.

The savings banks established a bank for their surpluses and for such business as they were prohibited from conducting.

The ever-growing accumulation of capital at length compelled the Vienna banking interests in 1911 to admit the Živnostenská Banka, the Provincial Bank of the Kingdom of Bohemia, the Central Bank of the Czech savings banks, and later also the Bohemian Industrial Bank to the Consortium for State credit operations.

103. As a result of the country's newly acquired independence the Financial Administration was confronted with the task of organizing the banking and savings bank system not only on account of its own credit operations but also in order to increase public confidence and encourage saving and investment on the part of the people at large. At the outset a 55 per cent. interest in the Böhmische Eskompte-Bank (Bohemian Discount Bank), the whole of whose share capital had hitherto been in the hands of the Niederösterreichische Eskomptegesellschaft (Lower Austrian Discount Company), was purchased by parties connected with the Živnostenská Banka. All the branches of the Kreditanstalt für Handel und Gewerbe (Vienna Credit Bank for Commerce and Trade) in the Republic were taken over by the Bohemian Discount Bank. The branches of the Vienna banks were provisionally allowed to carry on business in the Republic, but all deposits received had to be covered by home transactions, and they were given to understand that they must either become independent institutions or amalgamate with Czechoslovak banks. The Vienna 'Merkur-Bank' was reconstituted as the 'Komerční Banka' (Commercial Bank). The branches of the Oesterreichische Länderbank (Austrian Provinces Bank) were incorporated with the Hospodářská úvérní banka (Agricultural Credit Bank) in Prague; the Wiener Bank-Verein (Vienna Bank Association) established an independent bank; and the branches of the Verkehrsbank (Trading Bank) combined with the Moravská agrární a průmyslová banka (Moravian Agricultural and Industrial Bank). The branches of the Anglo-Austrian Bank have been incorporated in the new Anglo-Czechoslovakian Bank.

104. In Slovakia and Podkarpatská Rus new banks were founded in amalgamation with the smaller banks previously

existing, which performed the functions of savings and advance banks, while the Czech banks established branches of their own there. There were in these regions 279 banks with a capital of only 163 million kronen.

105. The joint-stock banks having their head offices in Prague (16 in number) had in 1918 a share capital of 454 million, their reserve funds being kr. 151·8 million, and their deposits on deposit book or Treasury bills 1,032 million kč.

The joint-stock banks with their head offices outside Prague (10 in number)—in Bohemia, Moravia, and Silesia—had a share capital of kr. 76·24 million, reserve funds amounting to kr. 28·7 million, and deposits on deposit book kr. 124·5 million. In all, at the time of the Revolution, there were in these countries 26 banks having :

	kr.
Share capital	530·4 million
Reserve funds	180·5 ,,
Aggregate assets . . .	710·9 ,,

The deposits on deposit book were 1,156,645,000 kč. (in addition to 4,578 million on current and drawing account)—the share capital showing an increase of kr. 162 million as compared with 1917.

At the end of 1919 there were 29 banks (an increase of 3) with a capital of 915 million kč. (an increase of 384·6 million), and in 1920 there were 37 with a capital of 1259·8 million kč. (an increase of 344·7 million). The largest was the Živnostenská Banka, with a capital of 200 million kč.

The banks have enjoyed, and still do so, the full confidence of depositors holding deposit books. The position of deposits on deposit books and Treasury bills was :

	kč.
On the 31st of January 1919 (before stamping) . . .	1,508 million
,, 31st of December 1919	2,521 ,,
,, 30th of September 1921	3,997 ,,
,, 31st of October 1921	4,012 ,,

The last figure, therefore, represents an increase as compared with the 31st of January 1919 of 2,504 million kč. Every inflation brings with it a tendency to hoard money ; but, in the

light of such an increase in deposits, it is clear that it has at all events been surmounted in Bohemia, Moravia, and Silesia. The savings bank books, moreover, show whether saving is increasing. On this point the figures are exceedingly instructive, for the amount of the deposits was 150 per cent. greater. The savings banks also show a promising result in the same respect. As the communal elections brought new men and new parties to the front and the management of communal affairs was subjected to changes of an unfavourable nature, it became necessary to strengthen confidence in the municipal savings banks. This was effected, both by prohibiting the savings banks from granting loans to their own Commune, and by compelling all savings banks to become members of the Savings Banks Union so that they should be subject to the protective measures of the Union. By these means confidence in the savings banks was increased.

	kč.	
On the 31st of January 1919 they had in deposits . . .	5,512	million
And on the 31st of August 1921	6,838	,,
Representing an increase of	1,326	,,

This increase is not so great as in the case of the banks, but as the depositors are for the most part persons of small means, it is obvious that saving is once more on the increase with those extensive classes among whom it had practically disappeared after the war in spite of their increased earnings.

In Slovakia the savings-bank system had not been developed. There were indeed savings bank companies, frequently with a capital of kr. 20,000, but there was little encouragement to save and more particularly the investment of money at interest was rendered extremely difficult. Hoarding of money had been, and is still, greater in Slovakia than in other regions. The Government has therefore authorized the most qualified Czech savings banks to establish branches in Slovakia, and the Savings Bank Union is co-operating in the establishment of municipal savings banks, several of which have already been opened. Here also deposits are beginning to increase and saving has begun to make progress.

II

THE NATURALIZATION OF JOINT-STOCK COMPANIES

106. A PECULIAR characteristic of business in Austria was the system under which joint-stock companies carrying on their activities outside Vienna nevertheless had their head-quarters in that city. The reasons for this state of things were of a financial, or rather, of a fiscal nature. Companies are taxed on the basis of 10 per cent. of the profit shown in the balance sheet. To the profit are added the tax paid for the preceding year and the interest on mortgage debts, as otherwise the company would be obliged to increase its share capital and would profit by the interest. Percentage increments or additions to this tax may, however, be levied by the Communes, Districts, Provinces, Chambers of Commerce, and Educational Districts. For the assessment of these increments the tax is divided in such a manner that 20 per cent. of it forms the basis for the additions leviable where the company has its head-quarters, and the balance for those leviable in the Commune, where the undertaking is carried on; while if the company owns several undertakings in different communes the tax is divided for the purposes of the increment in proportion to the amount of wages and salaries paid by the different undertakings.

The advocates of centralization turned these legal provisions to account and did their best to concentrate the head offices of companies in Vienna. They pointed out that the more joint-stock companies there were in Vienna, the more the basis for the increments—which in Vienna and the province of Lower Austria would always be percentually lower—would be increased. For although a company, by removing its head-quarters thither, would not actually increase the burdens of the Commune it had removed from, yet the Commune in Vienna would receive 20 per cent. of the tax in the form of the increment tax to the prejudice of the Commune where the factory is situated, which must pay for the schools, hospitals, poor relief, child-welfare work, &c., for the factory workers. The joint-stock companies, however, were not satisfied with this,

but also set up in Vienna central sales offices, in which the most highly paid officials of the company were installed. These sales offices were declared to be industries ('Betriebe'), and as they did in fact carry a large proportion of salaries and wages they diverted to themselves a considerable portion of the tax in the form of increment tax, to the detriment of the Communes, Districts, and Provinces in which the undertaking or undertakings of the company were carried on. The Austrian Government encouraged the formation of companies which chose Vienna as their head-quarters, and was in a position to do so, as promoters of joint-stock companies were obliged to obtain the consent of the Government for their formation. This system of licensing had been introduced as a result of the well-known financial crash in Vienna in 1873.

It was therefore necessary to put this matter on a proper basis and cause the joint-stock companies which had hitherto been domiciled in Vienna to transfer their head-quarters to the territory of the Republic. For this purpose an agreement was concluded with Austria to facilitate the process of transferring the head-quarters of the companies to the territory of the Republic. In particular, the provision requiring a company, on transferring its offices, to wind up and to pay the so-called liquidation tax was annulled. The Act (No. 12) of the year 1920 was the result, and those companies having their undertakings in the territory of the Republic were ordered to transfer their head-quarters thither and to become naturalized.

107. Since then eighty-eight joint-stock companies with a share capital of kr. 575 million have transferred their head-quarters to the territory of the Republic and have increased this capital by 124·5 million kč. for the purpose of effecting their naturalization, so that it now amounts to 699·5 million kč.

Thirty-two other companies, with a capital of kr. 259 million, carry on business abroad as well as in the Republic. These companies must divide their business and naturalize their undertakings carried on in Czechoslovakia.

Apart from these there are a number of companies with

which negotiations are still being conducted, particularly in Slovakia, where the negotiations have been delayed as a result of the Treaty of Trianon.

Ten mining undertakings with a capital of 275 million kč. and nineteen local railways with a capital of 32 million kč. have been naturalized.

In all, 117 joint-stock companies with a capital of 1,000 million kč. have transferred their head-quarters, and negotiations are still pending with thirty-two companies with a capital of 259 million. Account must also be taken of the Slovak companies, so that the capital of the naturalized companies will certainly reach the figure of 1,500 million *kč.* This change signifies not merely the adjustment of a long-standing grievance but also financially the increase of the revenue from taxation and the guarantee of its continuance, because these companies which became foreign through the rise of the Czechoslovak Republic have now been transferred within its borders along with their capital.

III

THE INCREASE OF COMPANY CAPITAL

108. Inflation and depreciation of the currency repeatedly gave rise to the formation of new joint-stock companies and excessive enlargement of the share capital of existing companies. Rising prices due to a fall in the currency inevitably tend to render working capital inadequate, and necessitate fresh capital being obtained by credit; and before long this credit ceases to correspond with the company's assets as expressed in its share capital and reserve fund. If, however, the capital should be increased too heavily, the company would be over-capitalized; as soon as the krone rose, the price of securities would fall, and thus the old shares, which were purchased with good currency, would also suffer simultaneously.

In order to deter speculators from getting control of the business of issue and to prevent the formation of unsound companies at favourable opportunities, the Government adhered

to the policy of licensing joint-stock companies, and amplified the strict supervision exercised over limited liability companies. It was also deemed advisable to extend the licensing system to Slovakia, as no check or restriction on the formation of joint-stock companies had existed in Hungary.

The Ministry of Finance introduced a system intended to ensure the soundness of the undertakings by withholding authority for the formation of companies without solid backing and also by limiting the increase of a company's capital beyond what was necessary for productive expenditure and, within a limited degree, for maintenance purposes. The Ministry supervised the price of issue, which was expected to be proportionate to the yield of the undertaking, seeing that everything in excess of the nominal value flows into the reserve fund. The price of issue was designed to rectify the disparity between the old and the new shares. The quotation of the shares on the Stock Exchange was also taken into consideration. A fresh issue was required to be no mere watering of capital, no mere bonus to the old shareholders, but a real strengthening of the undertaking. But along with these economic measures with a preventive purpose others of a positive nature were also enacted. By a special law an undertaking is permitted to write off from expenditure on renewals, in addition to the customary amount for amortization, 50 per cent. of the cost of the work, and this either at once or in instalments not exceeding a period of ten years, in order that this high capital expenditure, as expressed in depreciated kronen, may be at least partially covered. Further, an undertaking may write off 20 per cent. of its expenditure on new plant. This law has not only made it possible for concerns neglected from a technical point of view during the war to be reorganized and modernized, but also for old undertakings, whose plant had been written off, to secure a better position as regards competition than new undertakings, which could not write off either 50 per cent. or 20 per cent. on account of such fixed capital expenditure.

By these means over-hasty formations were mainly con-

fined to the period of decline following upon the war, whilst the transformation of private concerns into companies was promoted in a much greater measure. Moreover, the amalgamation of companies was also promoted by means of a special law, which freed them from the very oppressive liquidation tax.

109. The following results may be noted. The joint-stock companies and limited liability companies, with the exception of the banks, raised their share capital in the year 1919 by

	kč.	
	316·6	million
In 1920, 414 new companies were formed with a capital of .	672·5	„
The old companies raised their capital by	668	„
The aggregate capital has thus been increased by . . .	1,340·55	„
From the 1st of January to the 30th of September 1921, 330 companies were founded with a capital of	483	„
While the capital of the old companies was raised by . .	529	„
Thus the capital increase from the Revolution to the 30th of September 1921 amounts to	2,352	„

Of the new companies more than one-half are due to the transformation of existing businesses into joint-stock companies. The reason, however, for the proportionately small growth was that the currency was not increased, so that the amount of capital available did not increase beyond a level corresponding with it.

IV

THE STOCK EXCHANGE

110. With a depreciated currency and a consequent general reluctance to hold money, there is always the further risk that people will endeavour to exchange their cash not only for materials but also for claims upon things and for securities. Consequently the demand for securities grows and their quotations rush upwards, adjusting themselves to the international exchange rate of the currency on which they are based, so that when the currency fluctuates quotations also fluctuate. The securities lose relationship to their dividend value and are governed only by the value of gold on the world's market.

Exchange speculators then find their opportunity to control the market in securities and take advantage of popular excitement for the purposes of stock exchange gambling. Wherever bank notes are freely printed the passion for this form of gambling is further encouraged and made possible by the inflation of incomes to an extent entirely out of proportion to the services they are supposed to represent. During the years following the war the Vienna Stock Exchange presented a melancholy spectacle. It was the meeting place of all the shady adventurers who lived only by gambling in stocks, and who inoculated the great mass of the public with the passion to such a degree that there were times when the entire population speculated, even to the porters and hotel cooks.

111. Fortunately this kind of thing did not take place in the Czechoslovak Republic, and the reason was that no uncovered paper money was printed, although—and this is an interesting fact worth noting—the boldest speculators were constantly urging that 'the currency should be increased'. In order to maintain the soundness of the market for securities, the Government extended to Slovakia the rule that losses on stock exchange transactions are not recoverable at law; exercised a stringent supervision over the stock exchanges; and set its face against shady dealing. At first only the Banking Department was permitted to deal in exchange and bills; later on only such joint-stock banks and private bankers as bound themselves to submit to control. Only forward speculation in currency and bills was permitted, and banks and bankers were obliged to demand proof of the purpose for which a would-be purchaser required foreign bills. They were also obliged to furnish returns every month of these dealings and of kronen credits granted abroad, and they lost the right to deal in foreign bills if they disregarded the Government's instructions.

The system of issue, to which allusion has been made in the preceding part, was merely a means of promoting this object, inasmuch as new shares came into the hands of permanent investors at a proper price, so that subscribers had no inducement to sell them as a result of a low rate of issue.

V

THE HOUSING PROBLEM

112. As in all the belligerent States, the housing difficulty also made its appearance in the Czechoslovak Republic after the Armistice. Notwithstanding the great sacrifice in human life claimed by the war, resulting in a decline in the population, the amount of housing accommodation was inadequate. This was due to the following causes :

(1) Many war marriages were contracted during the war because the State granted maintenance allowances to the wife and children, so that the family of a man who had joined up was provided for. Generally the wife remained with her family, keeping house in common with them. When the husband returned after the war, however, the couple sought for a home of their own.

(2) The Austrian Government had taken measures during the war to prevent house rents being raised above the figure at which they stood on the 1st of August 1914. The average rent in Prague before the war was 20 per cent. of the income. The rents remained unaltered, but incomes—particularly wages—increased, so that rents in 1919, according to my investigations, amounted to only 5 to 7 per cent. of the income according to the quarter of residence, and in 1920 after the great rise in wages, even to as little as 2 to 3 per cent. The effect of this was that families of the working class gave their sub-tenants and lodgers notice and occupied the enlarged accommodation as soon as it was available, because rent now played no part in the household budget. This fact was shown very clearly by the census of the 1st of January 1921. Thus, in the eighth district of Prague (a working quarter), where the number of houses had diminished, there were 3·26 persons to each dwelling; while in the quarter inhabited partly by working classes and partly by clerical employees the number of houses had also diminished and the average number of persons per dwelling was 3·85. Yet in both quarters, in 1910, there were 5·2 persons to each dwelling. In district No. 2,

inhabited by the middle classes, the number of houses had increased and there were 4·68 persons per dwelling, although in 1910 the proportion had been only 4 persons.

(3) During the war no new houses were built. Cement was requisitioned for war purposes, the brick-works and lime-kilns received no coal, and there were no workmen, as even those unfit for war service had been put into the munition factories in order that the Hindenburg munition programme might be carried out.

(4) The Government Departments which had to be established for the new State had requisitioned a large number of dwelling houses.

(5) Moreover new houses were not built because the cost of construction was so high that the rent, even untaxed, would have given a return of barely ½ per cent.

113. As a first step towards remedying this terrible result of the war an Act was passed empowering communal authorities to requisition dwellings, and authorizing the appointment of a housing officer in any Commune where there was a shortage of accommodation. The functions of this officer were not only to assign dwellings as they became vacant, but also to ascertain how many living rooms each person had in his house. If the number of such rooms exceeded the number of his family—exclusive of servants who were required to sleep in the kitchen—the housing officer deprived the owner or tenant of this supernumerary portion of his dwelling and installed some houseless person there. The effect of the entry of a stranger was, at all events, to deprive the occupant of peaceful possession. A pretty way, indeed, was this of solving the social problem which inflicted grave injustice on the householder by robbing him of domestic peace, without even ensuring a peaceful and satisfactory abode to the new entrant, if he were a respectable person!

It was in vain that those acquainted with the actual conditions pointed out that this crude law would not have the desired result, because owing to the high rent tax, the increment taxes upon it, and the communal taxes for housing, there was

by no means an excessive number of large houses—not sufficient to accommodate even 5 per cent. of the people looking for dwellings. Although the truth of this prediction was soon obvious, this mistaken policy was pursued until the 30th of June 1921.

114. The second cause why houses were not built could be remedied only by an increase in rents. It is true that in 1919 an increase of 20 per cent. on the rentals as at the 1st of August 1914 was authorized, but as the taxes and increments amounted to 50 per cent. of the gross rental this amounted in reality to an increase of only 10 per cent. on gross rentals. At the same time the value of the krone had declined from 25·34 centimes to 9·5 centimes, while all prices had risen on an average to ten times, and building materials to fifteen times those current in peace time. The landlords paid out, merely for maintaining cleanliness in the tenements, for sweeping the pavements and for the most necessary roof maintenance, all that remained to them of the rental after deduction of taxes. The contractors did not build, because a house such as had cost 100,000 in peace time now cost 1,500,000, kč. and there was no assurance that the capital sunk in it would pay interest or bear the interest of the loans it might be necessary to arrange. Moreover the financial institutions did not care to lend adequate sums, because all of them believed that an eventual rise in the krone would bring about a fall in prices, a fall in the cost of building in the case of houses erected later on, a fall in rentals as compared with those of houses built during the period of currency depreciation, and consequently also a fall in the value of house property, so that mortgages would not be adequately secured. They declined therefore to grant mortgages beyond one-fifteenth of the cost of construction, and the contractor would have had to find the remaining fourteen-fifteenths and bear the entire risk arising from alterations in currency value. This showed clearly the terrible damage wrought by the war through the disorganization of the currency. The currency problem enters into this question as into every other, but in this case it is really the fundamental problem because the

capital sunk in building in the currency of to-day will remain tied up for many years to come. Both in merchandise and in commercial credits the turnover is rapid, but in the matter of building and mortgage credits the exchange risk is enormous.

115. For this reason the legislation intended to meet the building crisis had first to deal with this very serious problem of currency value. The Laws passed provide alternative means of relief.

(1) In the case of houses built without State aid, in which two-thirds of the habitable area is devoted to living accommodation, it is permissible for the builder, apart from the customary amortization, to write off 70 per cent. of the building cost free of taxation at any time within ten years. If in the case of a joint-stock company the tax amounts to 80 per cent. of the profit, the company thereby gains 56 per cent. of the building expenditure in the matter of taxes and increment taxes. A private contractor gains more in proportion as his income is greater, because he pays income tax on a progressive scale. This Law applies only to companies and individuals possessing large resources, in cases where they are obliged to provide the necessary building capital themselves. In such cases the State runs no financial risk but only suffers a loss in taxation. This Law has been justified by results.

(2) The second mode of relief consists, in the case of tenement buildings, in the State becoming guarantor in respect of capital, interest, and amortization, provided the building, after paying the interest on the capital sunk in it by the contractor, does not itself yield the annual amount required for redemption. The guaranteed loan may amount to 60 to 80 per cent., according to the number of dwellings, and in the case of building societies to 90 per cent. The houses are exempted from all taxes and increment taxes for 50 years.

In order that the State might be in a position to grant loans, or at least to make advances to financial institutions granting credits on mortgage, a Building Lottery Loan of 1,000 million kč. was decided upon, and in the course of canvassing it was urged upon those who had dwellings that it was

their duty to purchase tickets for the sake of those who had none.

This Act was not successful. The tickets sold realized only 25 million kč. A policy which disregards psychology is bad. The State first of all prohibits an increase of rent in the case of people fortunate enough to have dwellings, prevents their being given notice, gives them the privilege of cheap housing, severely penalizes the landlords so that the tenants need have no fear of a rise in rent, in fact does everything possible to increase their selfishness, and then suddenly asks these egotists to display philanthropy and buy loan tickets for the homeless !

116. In order that the State should not be obliged to pay excessive sums annually for redemption, the Ministry of Social Welfare fixes the rentals of houses guaranteed by the State. Thus, for one room and kitchen in one of these houses in Prague the rental was fixed at 3,300 kč. a year, while in a neighbouring house built before the war a room and kitchen cost 280 kč. It is evident at a glance that such an anomaly cannot be maintained. Either the rentals of the old houses will be freed from restriction and will approximate to those of the new houses, and in that case the new rentals will be maintained and the State will not be obliged to subsidize them ; or else the low rentals of the old houses will be maintained, and then the high rentals of the new houses will fall and the State will be forced to contribute enormous sums in subsidies annually.

So far, however, the social policy of driving the landlords of the older houses to despair holds sway. The mere suggestion to raise the rents of these houses cannot obtain a hearing, although the State and the Communes would receive 50 per cent. of the amount derived by doing so and the increased yield in taxes might be employed in covering the liability for the new houses guaranteed by the State. People have not yet succeeded in ridding themselves of this last remnant of the ' social policy ' theory prevalent during the war, because they fear that the abolition of this absurd privilege, entitling a person to accommodation for the same rent paid in depreciated

kronen as he formerly paid in undepreciated kronen, might cause a revolt among the tenants, who are more numerous than the landlords.[1]

VI

THE TRANSITION FROM STATE CONTROL TO FREEDOM OF TRADE AND COMPETITION

117. State control was introduced during the war for various reasons and special central or control offices were established to give effect to it. The Metal Control Office collected the copper parts of machinery, furnaces, &c., on behalf of the military authorities for the manufacture of shrapnel, and controlled the supply of pig iron and scrap iron, allocating to private industry what the military authorities did not require. This office was taken over by the Republic only for the purpose of effecting its liquidation. But it was not a question of control offices of this kind, but chiefly of those established in the Republic for two purposes—distributive and financial. The distributive control offices comprised the Grain Office, the Potato Commission, the Office for Oils, Fats and Milk, the Meat Control Office, the Fruit Control Office, the Beer Commission, the Bone and Artificial Manure Commission, and the Clothing Control Office. The financial control offices were the Spirit Control Office, the Malt Control Office, the Sugar Commission, the Timber Commission, and the Coal Commission. As regards the offices in the first category, their purpose was the purchase of grain, potatoes, oil, flour, fats, meats, and fruit, and their distribution among the population at fixed prices against cards, to the exclusion of traders. I have already dis-

[1] In the spring session of 1922 it was enacted that, in the case of dwellings composed of more than two living rooms, the rent may be raised by 20 per cent. of the pre-war amount, beginning with the August term 1922; this increase may be followed, at the November term, by another of 20 per cent. In the case of shops and small manufacturing premises the same 20 per cent. rate obtains, while the rent of medium-sized business premises may be raised by 30 per cent., and that of large premises by 40 per cent. This increase is, however, insufficient to stimulate the stagnant building trade.

cussed the Grain Office in my chapter on the Budget, and indicated the losses which accrued to the State as a result of the flour subsidies. This office also with its potato department, is now in process of liquidation. The Office for Oils, Milk and Fats ceased first to deal with the collection of milk, and afterwards with that of oils and fats; at present it is carrying out the liquidation of the section concerned with industrial fats. The Fruit and Vegetable Office had to cease work in 1919. Trade in meat was made free in 1920, and the result was a cheapening of meat prices. The Clothing Office, by means of which the State had to clothe a population of 14,500,000, suffered shipwreck as soon as industrial activity had been resumed. The Beer Commission was in reality only a distributive commission. As barley was used to feed the population, the malt ration for the breweries was restricted, the Commission distributing this malt among the individual breweries on the basis of their production in 1913. The function of the Bone and Artificial Manure Commission was not only to collect the bone meal and ration it out to the factories, but also to distribute the supplies of artificial manure.

118. Of greater importance to the State were the Spirit Commission, the Malt Commission and the Sugar Commission, as their function was not only the control of production but also the export of the products and the realization of the profits on the export trade. For this reason it is necessary to examine these Commissions.

119. The Spirit Commission had already been established in Austria, its original purpose being the regulation of the manufacture of spirit by withdrawing sound potatoes and allocating the inferior qualities for the production of spirit and yeast. The spirit, in so far as it was not required by the military authorities as a substitute for benzine in automobiles, was sold in the country. After the rise of the Czechoslovak State the scope of the Spirit Commission was extended. In Czechoslovakia there are 946 agricultural distilleries, of which the production capacity was assumed to be 516,720 hectolitres. There are, however, only 722 distilleries in operation. The

capacity is dependent on the extent of the fields belonging to the agricultural distilleries, amounting to 413,850 hectares. The principal object of the agricultural distilleries in the potato-growing districts was to enable these poorer hilly regions to manufacture spirit from their potatoes, thus turning them to better account, while they could employ the distillery wash for cattle feeding. They were permitted to use only potatoes in the manufacture. In addition to these agricultural distilleries there are also 37 industrial distilleries, which manufacture spirit from molasses and maize, and of which 13 have yeast factories. During the 1918–19 season the production of the industrial distilleries was 203,993 hectolitres, in that of 1919–20, 224,600 hectolitres, and in that of 1920–1, 306,818 hectolitres. There are 27 spirit refineries with a refining quota or capacity of 1,690,000 hectolitres, of which, however, only 14·4 per cent. was utilized in the 1918–19 season, 33·7 per cent. in 1919–20, and 26 per cent. in 1920–1. As the prohibition against the use of sound potatoes has been continued ever since the end of the war, it is impossible for the distilleries to produce their full quotas.

The State taxed the consumption of spirit very heavily, and fixed the selling price of all varieties. The export trade abroad was conducted by fixing a price for delivery, and the difference between this price and that obtained abroad was the State's profit.

Thus the following amounts were paid to the State in recent seasons :

	kč.
1918–19	35,000,000
1919–20	376,755,000
1920–1	186,076,549
1921–2 (to date)	65,000,000
	662,831,549

Of course in the realization of these profits the depreciation of the currency played an important part, as the home delivery price was fixed in Czech kronen, and consequently a possible decline of the krone increased the profits, while its rise operated

to diminish them. In reality this amounts to a monopoly in the sale of spirit. Whether it will be possible to maintain it, is difficult to say, for once order is restored in Poland and Russia, such a quantity of spirit will be placed on the market that it will be no easy matter to maintain the high prices that have hitherto prevailed, and moreover it is dangerous for the State to hold the monopoly of an article of which the greater portion must be exported. Although the Spirit Commission has continued in its original form up to the present, it is being re-organized and constituted an independent organization. The State would then merely exercise control and have a share in the export profits, which would certainly be larger than when the export trade was conducted in bureaucratic fashion.

120. The Malt Commission was organized on lines similar to those of the Spirit Commission. The Czech and Moravian (Hanak) malt was world renowned, and it was of the greatest importance to retain its markets. It was a pity that the malting barley should have been ground for flour; it was certainly preferable to export the malt and purchase flour. During the seasons from 1918–19 to 1920–1 inclusive, an aggregate of 11,000 truck-loads of malt were malted and 522 kč. million in foreign currencies paid over to the State. The profits to the State were:

	kč.
In the 1918–19 season	4,273,000
„ 1919–20 „	205,030,000
„ 1920–1 „	65,790,000
Total	275,093,000

Thus trade was maintained with nine countries to which malt had been exported before the war, and which had high value currencies. Since the introduction of the free grain régime during the 1920–1 season, the export of malt has been free as well as the home trade. One defect of the system hitherto in force was that the breweries were obliged to produce weak beer which it was impossible to export, so that those foreign markets which were important for the beer trade were lost. The home consumption also declined owing to the inferior

quality supplied, and wine took the place of beer, with the result that the payment balance was disturbed.

121. The Sugar Commission had been established in Austria because the army required large quantities of sugar for the production of glycerine for explosives and also because it was desired to restrict the home consumption of sugar in order to have it available for export to neutral countries. Special sugar cards were therefore introduced, a definite quantity being allocated to the population, and the remainder utilized otherwise. The use of sugar for war purposes ceased with the Revolution, and it was possible to consider its export on a more extensive scale. Of the total number of sugar factories within the limits of the former Austro-Hungarian Monarchy 173 factories, with a capacity of 93 per cent. of the whole, are situated in the territory of Czechoslovakia, so that the seat of the sugar industry is actually in our land, where the cultivation of the sugar beet and the manufacture of sugar have been brought to great perfection. The production capacity of the Czechoslovak sugar factories is about 12 million quintals of raw material. At present the production reaches only one-half of this figure, because the high prices of grain and other agricultural products are diverting attention from the cultivation of sugar beet. The Sugar Commission was established in Czechoslovakia, and the sugar-card system, rationing the consumption *per capita* of the population, was retained in order to leave as much as possible for export, in view of the fact that the proceeds of the export trade accrue to the State. Further, the sugar supplied to sugar-consuming industries was sold at a higher price because with them also it was an article of export. The results were as follows :

Sugar Production (net weight)

	Refined. *Quintals*	*Crystallized.* *Quintals*	*Raw.* *Quintals*	*Total in raw equivalent.* *Quintals*
1918–19 . . .	1,718,290·02	2,911,367·53	959,633·25	6,237,442·85
1919–20 . . .	1,784,670·47	2,389,024·97	316,154·47	5,074,167·26
1920–1	2,800,756·09	3,428,750·23	70,757·69	7,172,394·88

HOME SUGAR CONSUMPTION (net weight)

	Refined. Quintals.	*Crystallized. Quintals.*	*Raw. Quintals.*	*Total in raw equivalent. Quintals.*
1918–19 . . .	736,360·12	1,729,869·24	370,023·20	3,181,524·67
1919–20 . . .	1,170,186·94	1,570,650·36	199,925·59	3,306,240·11
1920–1	1,521,498·62	1,147,967·13	139,200	3,183,390·96

In the quantities given above the sugar supplied to the sugar-consuming industries is included, viz. :

	Quintals
1918–19 . . .	1,073,600·83 (invoice weight)
1919–20 . . .	906,340·40 ,, ,,
1920–1 . . .	317,845·51 ,, ,,

EXPORTS ABROAD (net weight)

	Refined. Quintals.	*Crystallized. Quintals.*	*Raw. Quintals.*	*Total in raw equivalent. Quintals.*
1918–19 . . .	328,078·40	606,970·09	584,135·12	1,650,090·40
1919–20 . . .	1,246,066·79	1,432,076·07	352,149·23	3,405,163·69
1920–1	1,236,023·31	2,336,837·13	71,705·56	4,143,766·44

AMOUNTS CREDITED TO THE STATE SURPLUS FUND

	kč.	*kč.*
During 1918–19 :		
(*a*) On sugar supplied to the home sugar-consuming industries :		
For account of the sugar factories . .	99,712,244·73	
For account of the industries . .	752,550·63	100,464,795·36
(*b*) On sugar exported abroad . . .		224,319,060·19
Total		324,783,855·55
During 1919–20 :		
(*a*) On stocks carried forward by the sugar factories from the preceding season . .		19,287,960·04
(*b*) On sugar supplied to the home sugar-consuming industries :		
For account of the sugar factories . .	213,525,455·24	
For account of the industries . .	37,048,982·53	250,574,437·77
(*c*) On sugar exported abroad . . .		2,454,088,765·31
Total		2,723,951,163·12
During 1920–1 :		
(*a*) On stocks carried forward by the sugar factories from the preceding season . .		127,226,903·43
(*b*) On sugar supplied to the home sugar-consuming industries :		
For account of the sugar factories . .	77,327,807·39	
For account of the industries . .	34,536,796·86	111,864,604·25
(*c*) On sugar exported abroad . . .	about	1,725,000,000·00
Total		1,964,091,507·68

The State therefore received from these home and export surpluses in the seasons of 1918–19, 1919–20, and 1920–1 the sum of 5,011,800,000 kč. These figures are really enormous, even at the low exchange rate of the krone.

These profits, of course, are possible only in so far as the krone exchange is low and the cost of production is below the normal. In March 1921 the Government fixed the price of beet for the 1921–2 season, before it was grown, at 26 kč. per 100 kg. It appeared from an estimate of sugar prices on the world market that at this price there was a danger that the State would run the risk of either having to subsidize the export trade or incur a loss, for large stocks of sugar were on hand at the beginning of the new season, and the situation with regard to Cuba sugar was uncertain. Accordingly, the existing system was abandoned in favour of another. The Sugar Commission was liquidated and the entire sugar trade is now conducted by a syndicate operating for its own account, viz. the so-called Sugar Syndicate. The beet-growers lowered the price of beet to 20 kč., and the sugar factories lowered the price of sugar for home consumption and for export. Of the export profits the State receives 50 per cent., the beet-growers 43 per cent., and the sugar manufacturers 7 per cent. The result of sugar being freed from control was an increase of 30 per cent. in the home consumption. The abandonment of the system of control, which had certainly proved profitable in the past, was wise, for it was probable that the brilliant post-war conditions were over and that there would now be a very powerful competitor on the market, viz. cane sugar. In the 1921–2 season some 10 million tons of cane sugar and some 5 million tons of beet sugar will be produced. The struggle with which the beet sugar industry is faced will have to be fought out by an active display of initiative, by lowering the working costs and by further improving the quality of the product. A clumsy bureaucratic State organization is unsuitable for such a purpose. It could only last so long as there was no competition and a sugar famine actually prevailed on the world market. As the State levies a heavy tax on sugar for home consumption it will obtain a much more stable revenue by increasing home consumption

than was furnished by the uncertain receipts derived from the export surpluses which were dependent upon world conditions.

122. The figures representing the surpluses from spirit, malt and sugar have amounted to nearly 6,000 million kč. during three years. Any one inquiring what had become of the money would be astonished at the reply: 'We have spent it on the subsidies for flour and bread, which were sold below cost price: even that sum was insufficient by 2,200 million kč. which we had consequently to borrow.' Where would the State, its finances, and its currency have been if only from the 1919 season onwards we had stopped selling flour at prices invariably cheaper than it cost us! We should have had less debts and should not have required to introduce the coal tax, which is such a heavy burden on our industries and so greatly increases our manufacturing costs.

123. The Timber Control Office was specially established to control the export of timber. It ceased to exist when the Foreign Trade Department was established, although this also is already in course of liquidation. The Coal Commission, which was attached to the Ministry of Public Works and controlled the distribution of coal, has also ceased, and the latter department now controls the prices of coal, chiefly for fiscal reasons, on account of the coal tax.[1]

124. The people breathed again when all these war time impositions were abolished, and realized only then that peace had really come at last. It is certainly most interesting to note what small account was taken of the psychology of the nation after the war—how the Government sought to direct everything by its own orders, continuing to play the part of drill sergeant to the people. But all this the nation felt to be servitude rather than beneficent rule, so that even the most strenuous champions of economic control were compelled at length to capitulate. And the result was that at once thousands and thousands of human brains set to work in order that the people should be fed and clothed well and cheaply, and that through free competition prices should be brought down. And this is being accomplished.

[1] It had its life provisionally prolonged till the end of 1922.

CONCLUSION

I HAVE endeavoured in this work to outline the most important of the post-war problems of the free State of Czechoslovakia.

The war has left its scars not only on the countryside, the scene of its operations, but on the hearts and minds of mankind as well. The abandonment of principle, the glorification of selfishness, the disappearance of kindliness, good fellowship, and profitable co-operation, the apotheosis of envy and hatred—these were its disastrous consequences. He who would judge the economic and financial phenomena arising from the war cannot afford to do so without due regard to the mental attitude of the masses throughout Europe, which frequently showed signs of complete deviation from the normal.

But besides the effect on character, besides misfortune such as the destruction of the means of production, the enrichment of some and the impoverishment of others, there was a further serious matter calling for redress—the derangement of the currencies. The solution of this grave problem was a task of no small magnitude, because the habit of industry had been impaired and work had come to be regarded as a burden incompatible with the dignity of free men; because the rule of economy in production and consumption had disappeared; and because every one had lost all sense of proportion in the way of demands and requirements and had grown accustomed to the big figures resulting from a depreciated currency. In my opinion this state of affairs was, and still is, most serious, and its reform should claim the immediate attention of all those whose aim it is to secure, instead of a mere paper-peace, a true peace of heart and mind, a regeneration of impaired morale, a return to principle and to the fundamental axiom that every man is the shaper of his own destiny.

The Czechoslovak Republic was fortunate, inasmuch as the

first six months of its new life were a spell of joy and happiness. It was happy in the knowledge that our nation had regained its freedom and in the belief that all its citizens, without distinction of rank or class, would readily and unselfishly contribute to the restoration of their liberated country and to the establishment of its economic life on sure foundations.

Then came a time when mistakes began to be made, perhaps under the sinister influence of Bolshevik propaganda from our neighbour Russia—mistakes which caused much harm. But the effects of such have passed or are passing away. The nation has returned to the habits of industry and thrift that had been the foundations of the progress achieved by her under, and against the wishes of, the State of which she had formed an unwilling part.

In this fashion she is preparing to achieve, in freedom, her full development, and to show herself worthy of the confidence which the statesmen of Western Europe and of the American Republic displayed in according her the right of national self-determination.

One may, indeed, assert, even now, that of all the nations of Western Europe the Czechoslovak has been the most successful in surmounting the inevitable difficulties following on the war, a result achieved by steadfast purpose and strenuous effort toward the realization of her native genius and the fulfilment of her national destiny.

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NOV 28 74 MML

CAT. NO. 1137

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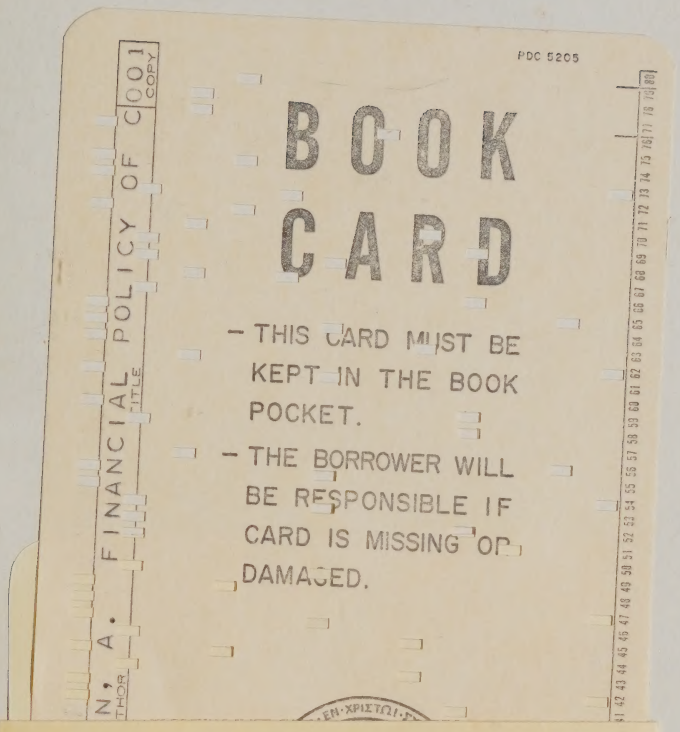

STORAGE

UTL AT DOWNSVIEW
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